Docket:	:	A.06-07-017
Exhibit Number	:	
Commissioner	:	John Bohn
Admin. Law Judge	:	Christine Walwyn
DRA Project Mgr.	:	Yoke Chan

DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

REPORT ON THE RESULTS OF OPERATIONS IN BAKERSFIELD DISTRICT OF CALIFORNIA WATER SERVICE COMPANY

Test Year 2007-2008 and
Escalation Years 2008-2009 and 2009-2010
Application 06-07-017

For authority to increase water rates located in its
Bakersfield District serving portions of
Bakersfield and vicinity, Kern Counties.

San Francisco, California
December 8, 2006

TABLE OF CONTENTS

MEMORANDUM

The Division of Ratepayer Advocates ("DRA") of the California Public Utilities Commission ("Commission") prepared this report in the California Water Service Company's ("CWS") rate case proceeding A.06-07-017. In this docket, the applicant requests an order for authorization to increase rates charged for water service by $ 11,220,000 or 22.81 % in fiscal year 2007-2008; by $1,979,900 or 3.30% in fiscal year 2008-2009; and by $1,979,900 or 3.17% in fiscal year 2009-2010 in its Bakersfield District service area. DRA presents its analysis and recommendations associated with the Applicant's request.

Yoke Chan serves as DRA's project coordinator in this review, and is responsible for the overall coordination in the preparation of this report. DRA's witnesses' prepared qualifications and testimony are contained in Appendix A of this report.

DRA's legal counsel for this case is Selina Shek.

DRA's recommendation on Cost of Capital is discussed under separate cover.

EXECUTIVE SUMMARY

CWS requested an increase of 22.81% in Test Year 2007-08 and 3.30% in Escalation Year 2008-09, whereas DRA recommends a decrease of 5.5% in Test Year 2007-08 and inflationary increases for the Escalation Years.

Key Recommendations

DRA's recommendations are based on higher sales of multi family customers (Chapter 2), lower estimates of Operation and Maintenance expenses (Chapter 3), lower expenses of Administrative and General expenses (Chapter 4), lower Plant additions (Chapter 7), a lower Cost of Capital of 9.54% and lower Rate of Return on Rate Base of 8.30% for 2007-2008 and 2008-2009 (Chapters 1 and 13).

In addition, DRA recommends the following treatment to CWS' Special Requests as discussed further in Chapter 12:

(a) Water Quality

CWS requests that the Commission make a finding that the district water quality meets all applicable state and federal drinking water standards and the provisions of General Order 103. DRA reviews CWS' filings and agrees that CWS has complied with applicable water quality standards during the most recent three-year period.

(b) Water Revenue Adjustment Mechanism

CWS requests a revenue adjustment mechanism that decouples sales and revenues. This was excluded in the scope of this proceeding.

(c) Filing an offset rate increase in 2008 to reflect the General Office allocation adopted in CWS' 2007 GRC

CWS requests authorization to file an offset rate increase in 2008 to reflect the general office allocation adopted in its 2007 general rate case filing. This was excluded in the scope of this proceeding.

(d) Total water cost balancing account

CWS requests total water cost balancing account. This was excluded in the scope of this proceeding.

(e) An early ex parte order to update Rule 15

CWS requests an early ex parte order to update Rule 15 to increase the water supply special facilities fee in this district. DRA recommends the lot fee be increased from CWS' proposed $1,478 to $3,300.

(f) To amortize all balancing and memorandum accounts

CWS requests an authority to amortize all balancing and memorandum account balances in this district. DRA agrees that all balancing and memorandum accounts should be amortized.

List of DRA Witnesses and Respective Chapters

Chapter Number	Description	Witness
-	Executive Summary	
1	Overview and Policy Introduction and Summary of Earnings	Yoke Chan
2	Water Consumption and Operating Revenues	Toni Canova
3	Operation and Maintenance Expenses	Vibert Greene
4	Administrative and General Expenses	Cleason Willis
5	Taxes Other Than Income	Cleason Willis
6	Income Taxes	Vibert Greene
7	Plant in Service	Clement Lan
8	Depreciation Expenses and Reserve	Joyce Steingass
9	Rate Base & Net to Gross Multiplier	Joyce Steingass
10	Customer Service	Katie Liu
11	Rate Design	Tatiana Olea
12	Special Requests	Lan, Chan, Thompson
13	Escalation Year Increases	Yoke Chan

CHAPTER 1: OVERVIEW AND POLICY

A. INTRODUCTION

This report sets forth DRA's analysis and recommendations for A. 06-07-017, CWS' general rate increase request for Test Year 2007-2008 and Escalation Years 2008-2009 and 2009-2010.

B. SUMMARY OF RECOMMENDATIONS

Tables 1-1 through 1-3 of the Summary of Earnings compare the results of operations for the Test Year 2007-2008 including revenues, expenses, taxes and ratebase.

C. DISCUSSION

The total revenues requested by CWS are as follows:

Year	Amount of Increase	Percent
2007-2008	$11,220,000	22.81%
2008-2009	$ 1,979,900	3.30%
2009-2010	$ 1,979,900	3.17%

CWS estimates that its proposed rates in the Application will produce revenues providing the following returns:

Year	Return on Rate Base	Return on Equity
2007-2008	9.89%	12.37%
2008-2009	9.89%	12.37%
2009-2010	9.89%	12.37%

D. CONCLUSION

DRA recommends a revenue decrease for the Test Year as follows (Escalation Years 2008-2009 and 2009-2010 are covered in Chapter 13):

Year	Amount of Decrease	Percent
2007-08	$2,724,300	5.5%

D.04-09-038 authorized the last general rate increase for CWS in A. 03-10-017, resulting in a rate of return on rate base of 8.6% in 2004. Present Rates used by DRA in this report are based on Advice Letter No.1758, which became effective January 1, 2006 as authorized by D. 04-09-038.

A comparison of DRA and CWS' estimates for rate of return on rate base for the Test Year 2007-2008 and Escalation Year at present and the utility's proposed rates is shown below:

RATE OF RETURN

	DRA		CWS		Diff	
	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09
Present Rates	9.86 %	10.48%	4.83%	4.26%	-5.03%	-6.22%
Proposed Rates	16.39%	18.30%	9.89%	9.89%	-6.50%	-8.41%

TABLE 1-1

CALIFORNIA WATER SERVICE COMPANY
BAKERSFIELD DISTRICT

SUMMARY OF EARNINGS

TEST YEAR 2007 - 2008

(AT PRESENT RATES)

Item	DRA Estimate	CWS Estimate	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	49,338.0	49,188.9	(149.1)	-0.3%
Operating expenses:				
Operation & Maintenance	19,023.7	24,215.4	5,191.7	27.3%
Administrative & General	1,053.6	1,280.2	226.6	21.5%
G. O. Prorated Expense	6,747.9	7,124.8	376.9	5.6%
Dep'n & Amortization	5,427.8	5,997.7	569.9	10.5%
Taxes other than income	2,123.5	2,395.5	272.1	12.8%
State Corp. Franchise Tax	920.8	249.5	(671.3)	-72.9%
Federal Income Tax	4,537.7	2,002.2	(2,535.5)	-55.9%
Total operating exp.	39,834.9	43,265.3	3,430.4	8.6%
Net operating revenue	9,503.1	5,923.6	(3,579.5)	-37.7%
Rate base	96,374.8	122,691.1	26,316.3	27.3%
Return on rate base	9.86%	4.83%	-5.03%	-51.0%

TABLE 1-2

CALIFORNIA WATER SERVICE COMPANY
BAKERSFIELD DISTRICT

SUMMARY OF EARNINGS

TEST YEAR 2007 - 2008

(AT UTILITY PROPOSED RATES)

Item	DRA Estimate	CWS Estimate	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	60,598.2	60,418.7	(179.5)	-0.3%
Operating expenses:				
Operation & Maintenance	19,092.3	24,352.3	5,260.0	27.6%
Administrative & General	1,053.6	1,280.2	226.6	21.5%
G. O. Prorated Expense	6,747.9	7,124.8	376.9	5.6%
Dep'n & Amortization	5,427.8	5,997.7	569.9	10.5%
Taxes other than income	2,246.0	2,516.9	270.9	12.1%
State Corp. Franchise Tax	1,899.3	1,225.4	(673.9)	-35.5%
Federal Income Tax	8,332.9	5,787.2	(2,545.8)	-30.6%
Total operating exp.	44,799.8	48,284.5	3,484.7	7.8%
Net operating revenue	15,798.4	12,134.2	(3,664.2)	-23.2%
Rate base	96,374.8	122,691.1	26,316.3	27.3%
Return on rate base	16.39%	9.89%	-6.50%	-39.7%

TABLE 1-3

CALIFORNIA WATER SERVICE COMPANY
BAKERSFIELD DISTRICT

SUMMARY OF EARNINGS

TEST YEAR 2007 - 2008

(DRA ESTIMATES)

Item	DRA Est. @ Present Rates	@ Rates Proposed by DRA	Proposed Exceeds Present Amount	%
	(Thousands of $)			
Operating revenues	49,338.0	46,613.7	(2,724.3)	-5.5%
Operating expenses:				
Operation & Maintenance	19,023.7	19,007.1	(16.6)	-0.1%
Administrative & General	1,053.6	1,024.0	(29.6)	-2.8%
G. O. Prorated Expense	6,747.9	6,747.9	0.0	0.0%
Dep'n & Amortization	5,427.8	5,427.8	0.0	0.0%
Taxes other than income	2,123.5	2,123.5	0.0	0.0%
State Corp. Franchise Tax	920.8	684.1	(236.7)	-25.7%
Federal Income Tax	4,537.7	3,600.3	(937.3)	-20.7%
Total operating exp.	39,834.9	38,614.6	(1,220.3)	-3.1%
Net operating revenue	9,503.1	7,999.1	(1,504.0)	-15.8%
Rate base	96,374.8	96,374.8	0.0	0.0%
Return on rate base	9.86%	8.30%	-1.56%	-15.8%

CHAPTER 2: WATER CONSUMPTION AND OPERATING REVENUES

A. INTRODUCTION

This Chapter presents DRA's analysis and recommendations on water consumption and operating revenues for CWS' Bakersfield District. DRA analyzed CWS' report, supporting work papers, methods of estimating water consumption and operating revenue, data responses, and supplementary data before formulating its own estimates. Table 2-A presents a summary of estimates developed by DRA and CWS.

Table 2-A Summary of Projected Consumption and Revenues

	DRA		CWS		CWS Exceeds DRA	
	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09
Total Operating Revenues ($000)						
Present Rates	49,338.0	49,965.8	49,188.9	49,816.7	(149.1)	(149.1)
Utility Proposed Rates	60,598.2	62,575.4	60,418.3	62,393.3	(179.9)	(182.1)
Average Number of Customers						
Metered	33,448	35,250	33,448	35,250	0.0	0.0
Flat and Fire Protection	32,594	31,991	32,594	31,991	0.0	0.0
Water Sales By Customer Class (Kccf/yr)						
Residential	8,332.9	8,903.9	8,332.9	8,903.9	0.0	0.0
Business	5,370.3	5,401.6	5,370.3	5,401.6	0.0	0.0
Multi-Family	1,861.2	1,863.2	1,714.8	1,716.6	(146.6)	(146.6)
Industrial	26.2	26.2	26.2	26.2	0.0	0.0
Public Authority	2,163.4	2,163.4	2,163.4	2,163.4	0.0	0.0
Other	356.5	356.5	356.5	356.5	0.0	0.0
Water Sales Per Average Customer (CCF/Connection/Year)						
Residential	325.9	325.9	325.9	325.9	0.0	0.0
Business	869.4	869.4	869.4	869.4	0.0	0.0
Multi-Family	1,962.3	1,962.3	1,807.9	1,807.9	(154.4)	(154.4)
Industrial	727.8	727.8	727.8	727.8	0.0	0.0
Public Authority	3,730.0	3,730.0	3,730.0	3,730.0	0.0	0.0
Other	2,564.4	2,564.4	2,564.4	2,564.4	0.0	0.0

B. SUMMARY OF RECOMMENDATIONS

1) Number of Customers

DRA reviewed CWS' estimating methodology for determining the number of customers in the Test Year. CWS used a five-year average of annual customer growth to estimate the incremental number of customers unless there are mitigating outside factors as described below. DRA agrees with CWS' estimates for the number of customers in each of the six classes of customers for the Test Year and recommends the Commission adopt these customer numbers because they are reasonable.

2) Operating Revenues

DRA accepts CWS' revenue forecasting methodology except for the Multi Family customer class because DRA used a different consumption forecasting method. Tables 2-6 and 2-7 show a detailed comparison for the Test Year 2007-2008, and Escalation Year 2008-2009.

3) Consumption

CWS used 10 years of monthly temperature and rainfall data to develop the regression models and forecasts. CWS adjusted the data to remove the first four inches of rain recorded and to account for the billing lag associated with the temperature data. It is consistent with Commission practice to remove the first four inches of rainfall. This adjustment is necessary to reflect the fact that, historically, rainfall above 4 inches during a month does not impact consumption. CWS' consultant used Econometric Views (E-Views) to specify the regression models and develop the forecasts. Using E-Views software to estimate consumption per customer is now standard practice and is consistent with the "New Committee Method" recommended in D.04-06-018, the General Rate Case Plan for Class A Water Companies. In instances where the regression model yielded unsatisfactory statistics, for example, in the Residential and Other

categories, a different estimating methodology was selected. Unsatisfactory statistics are indicated by a low R-squared, a Durbin-Watson statistic value not close to 2.00, and a low variable coefficient t-statistic.

While preparing its estimates, DRA reviewed and confirmed CWS' models and forecasts. DRA accepts CWS' general forecasting methodology. DRA's and CWS' estimates are generally derived from the average-use-per connection forecasted for 2006 and then incorporated customer growth in 2007 and 2008. These forecasts are then averaged to derive the fiscal Test Year estimates for 2007-08 and the Escalation Fiscal Year 2008-09. Detailed discussions of the forecasts are below.

4) Unaccounted For Water ("UFW")

CWS used a five-year average unaccounted for water percentage of 8.00%. DRA agrees with this five-year average of 8% and recommends the Commission adopt this percentage because it is reasonable.

C. DISCUSSION

1) Number of Customers

CWS used a five-year average for forecasting the Residential, Industrial and Other customer classes. For Business class and Multiple Family class CWS based the forecast on an average of customers for years 2001 and 2002. Due to reclassification of some accounts in years 2003, 2004 and 2005 the customer numbers were excluded in the forecast for these two classes. For the Public Authority class CWS used a 4 year average instead of a five year average because the 2003 customer number was unusually high and therefore was excluded. DRA agrees with CWS' forecasting methods and the resulting forecast for all customer classes. DRA's and CWS' forecasts are shown in Table 2-A above and at the end of the Chapter in Tables 2-2 and 2-3.

2) Operating Revenues

Revenues requested by CWS and recommended by DRA are based on the present and proposed rates are shown above in Table 2-A and at the end of this Chapter in Tables 2-6 and 2-7. The major difference is in the revenue estimates for the Multi family customer class because DRA used a different consumption forecast method.

3) Consumption

DRA reviewed CWS' forecasts and developed its forecasts utilizing the same set of historical data. DRA used an E-Views forecast where the statistics indicated good results (an R-squared close to 1.00, a Durbin-Watson statistic near 2.00, and significant t-statistics) from using an E-Views model. In other instances DRA used an average of historical consumption similar to how CWS developed its forecast. DRA's and CWS' forecasts are shown in Table 2-A above, and at the end of the Chapter in Table 2-1.

The basic forecast equation starts with a constant term, a temperature variable, a rain variable, and a time variable. Depending on the statistics generated by this simple model adjustments may be made to the model to provide a superior estimate. Some of the modifications may include substituting the individual monthly temperature variables, including an autoregressive term, or including a dummy variable. Specific forecasts are discussed below.

(a) Residential

DRA used the same forecast method as CWS. The E-Views equation included a constant term, twelve temperature variables (representing each month), a time variable, but no autoregressive term. After reviewing the results of the water sales E-Views model, both DRA and CWS observed that the results were too low and did not fairly represent future water sales potential for this customer

class. A five-year average calculation of historic consumption for metered sales per customer provides a better representation. DRA agrees with CWS' method of forecasting residential sales.

CWS calculated annual residential water consumption by multiplying the projected consumption per customer in hundreds of cubic feet (CCF) by the projected number of customers. CWS then multiplied its forecast result of 325.9 Ccf per customer by the average number of customers per year to estimate the total metered sales for 2006, 2007, and 2008. To estimate the 2007-08 Fiscal Test Year sales, CWS used an average of the 2007 and 2008 estimates. DRA agrees with the resulting total water sales of 8,332.9 thousand cubic feet (Kccf) per year for residential customer class as shown above in Table 2-A.

(b) Business

DRA used the same forecast method as CWS. The E-Views model returned statistical results that were too low compared to historic usage, so it was not used to forecast this customer class. Both DRA and CWS used a five-year average consumption resulting in a forecast of 869.4 Ccfs per connection per year. DRA and CWS multiplied the consumption by the average number of customers and then divided by one thousand to derive the Total Metered Sales of 5,370.3 Kccf per year for Fiscal Test Year 2007-08. DRA agrees with this forecast.

(c) Multifamily

For Multifamily customer class, the E-Views equation did not capture the change in the number of customers at the end of 2003, so it did not provide reliable forecasting statistics. CWS used a two-year average, provided by their consultant, calculated by using the monthly averages for 2004 and 2005. DRA does not agree with CWS' method. DRA used a two-year average using the end-of-year total sales per service connection. Using the end-of-year total sales to

calculate the average is the standard method used by CWS in most the averaging forecasts calculated in this district and the other Districts in this GRC. CWS' method results in 1,807.9 Ccfs per connection per year and the calculated Total Metered Sales of 1,714.8 Kccf per year for the Fiscal Test Year of 2007-08. DRA's results of 1,962.3 Ccf per connection per year and 1,861.2 Kccf Total Metered Sales for the Test Year are more representative of the sales potential for Multifamily dwelling sales for this District.

(d) Industrial

DRA used the same forecast method as CWS. The E-Views standard model for estimating the industrial sales returned unsatisfactory statistics. Therefore, CWS did not use the E-views equation. CWS used a five-year average consumption to forecast 26.2 Kccf total consumption per year. This then calculates to 727.8 Ccf per average customer by dividing the Kccfs by the average number of customers and multiplying by one thousand for Fiscal Test Year 2007-08. DRA agrees with this forecasting method and its results.

(e) Public Authority

DRA used the same forecast method as CWS. DRA used the E-Views model to forecast sales for the public authority customer class. The standard equation included a constant term, twelve temperature variables, a time variable, an autoregressive term and a dummy variable to remove a data point error. DRA concurs with CWS' 2,163.4 Kccf total consumption forecast. To calculate the consumption per customer the number of Ccfs are divided by the average number of customers, then multiplied by 1000 to derive 3,730.0 Ccf consumption per customer per year for Fiscal Test Year 2007-08. DRA finds this reasonable and concurs with CWS' forecast.

(f) Other

CWS found that the E-Views model for Other customer class did not provide statistically suitable results so it was not used. Historical data shows a steady increase in water consumption for the last several years. CWS used the last recorded year of 2005 to forecast 356.5 Kccf for total consumption. By dividing the total consumption by the average number of customer then multiplying by 1000 the forecast of 2,564.4 Ccfs per customer per year is calculated for Fiscal Test Year 2007-08. DRA concurs with this forecasting method and the results.

4) Unaccounted For Water ("UFW")

The Bakersfield District has a large number of flat rate residential customers so the actual amount of UFW cannot be accurately measured and projected. UFW includes leakage of water from the system prior to sale and water used for system flushing and maintenance. CWS estimates 8.00% for unaccounted for water based on a five-year average. DRA agrees with this estimation.

5) Total Water Consumption and Supply

Total water consumption is the sum of metered and un-metered sales and unaccounted for water. Bakersfield District has a large number of residential flat rate customers, and private and public fire protection un-metered customers. The majority of water supply is from company owned wells, with a small amount from leased wells. CWS purchases surface water through the Kern County Water Agency (KCWA) Improvement District No. 4 (ID-4), which supplies about 15 percent of total water supply for this District. A company owned new surface water treatment plant, located in northeast Bakersfield, treats water from the Kern River to supply just over 20 percent of the current and future demand. Total water consumption and supply levels for the Test Year and Escalation Year are shown in Tables 2-4 and 2-5.

D. CONCLUSION

1) Number of Customers

DRA concurs with CWS' estimated number of customers for the Test Years shown in Tables 2-2 and 2-3.

2) Operating Revenues

DRA finds CWS' revenue forecast reasonable, except for Multi Family class, and recommends the Commission adopt DRA's revenue forecasts shown in Tables 2-6 and 2-7.

3) Consumption

DRA finds CWS' forecasts of consumption reasonable and recommends the Commission adopt the numbers shown in Table 2-1, and sales totals in Tables 2-4 and 2-5.

4) Unaccounted For Water

DRA finds CWS' five-year average percentage UFW of 8% is reasonable and recommends it should be adopted.

TABLE 2-1

CALIFORNIA WATER SERVICE COMPANY
BAKERSFIELD DISTRICT
WATER SALES PER AVERAGE CUSTOMER

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(CCF/CONN./YR)			
Residential	325.9	325.9	0.0	0.0%
Business	869.4	869.4	0.0	0.0%
Multiple Family	1,962.3	1,807.9	(154.4)	-7.9%
Industrial	727.8	727.8	0.0	0.0%
Public Authority	3,730.0	3,730.0	0.0	0.0%
Other	2,564.4	2,564.4	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%

TABLE 2-2

CALIFORNIA WATER SERVICE COMPANY
BAKERSFIELD DISTRICT

AVERAGE NUMBER OF CUSTOMERS

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
Metered Connections				
Residential	25,569	25,569	0	0.0%
Business	6,177	6,177	0	0.0%
Multiple Family	949	949	0	0.0%
Industrial	36	36	0	0.0%
Public Authority	580	580	0	0.0%
Other	139	139	0	0.0%
Irrigation	0	0	0	0.0%
Reclaimed	0	0	0	0.0%
Total metered connections	33,448	33,448	0	0.0%
Flat Rate Connections				
Residential Flat	31,806	31,806	0	0.0%
Private Fire Protection	704	704	0	0.0%
Public Fire Protection	84	84	0	0.0%
Total flat rate connections	32,594	32,594	0	0.0%
Total Active Connections				
Include Fire Protection	66,042	66,042	0	0.0%
Exclude Fire Protection	65,254	65,254	0	0.0%

TABLE 2-3

CALIFORNIA WATER SERVICE COMPANY
BAKERSFIELD DISTRICT

AVERAGE NUMBER OF CUSTOMERS

ESCALATION YEAR 2008 - 2009

Item	DRA	CWS	CWS exceeds DRA Amount	%
Metered Connections				
Residential	27,321	27,321	0	0.0%
Business	6,213	6,213	0	0.0%
Multiple Family	950	950	0	0.0%
Industrial	35	35	0	0.0%
Public Authority	581	581	0	0.0%
Other	152	152	0	0.0%
Irrigation	0	0	0	0.0%
Reclaimed	0	0	0	0.0%
Total metered connections	35,250	35,250	0	0.0%
Flat Rate Connections				
Residential Flat	31,192	31,192	0	0.0%
Private Fire Protection	712	712	0	0.0%
Public Fire Protection	87	87	0	0.0%
Total flat rate connections	31,991	31,991	0	0.0%
Total Active Connections				
Include Fire Protection	67,241	67,241	0	0.0%
Exclude Fire Protection	66,442	66,442	0	0.0%

TABLE 2-4

CALIFORNIA WATER SERVICE COMPANY
BAKERSFIELD DISTRICT

TOTAL SALES AND SUPPLY

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(KCCF/YEAR)			
Metered Sales				
Residential	8,332.9	8,332.9	0.0	0.0%
Business	5,370.3	5370.3	0.0	0.0%
Multiple Family	1,861.2	1,714.8	(146.4)	-7.9%
Industrial	26.2	26.2	0.0	0.0%
Public Authority	2,163.4	2,163.4	0.0	0.0%
Other	356.5	356.5	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
Total metered sales	18,110.5	17,964.1	(146.4)	-0.8%
Flat Rate Sales				
Residential	16,186.4	16,186.4	0.0	0.0%
Unaccounted For Water 8.00%	2,982.3	2,969.6	(12.7)	-0.4%
Total delivered	37,279.2	37,120.1	(159.2)	-0.4%
Supply				
Company Wells	21,816.4	21,657.3	(159.1)	-0.7%
Leased Wells	41.4	41.4	0.0	0.0%
Purchases - KCWA	5,662.8	5,662.8	0.0	0.0%
Surface Supply NE	7,806.9	7,806.9	0.0	0.0%
Surface Supply NW	1,951.7	1,951.7	0.0	0.0%
Total production	37,279.2	37,120.1	(159.1)	-0.4%

TABLE 2-5

CALIFORNIA WATER SERVICE COMPANY
BAKERSFIELD DISTRICT

TOTAL SALES AND SUPPLY

ESCALATION YEAR 2008 - 2009

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(KCCF/YEAR)			
Metered Sales				
Residential	8,903.9	8,903.9	0.0	0.0%
Business	5,401.6	5,401.6	0.0	0.0%
Multiple Family	1,863.2	1,716.6	-146.6	-7.9%
Industrial	26.2	26.2	0.0	0.0%
Public Authority	2,163.4	2,163.4	0.0	0.0%
Other	356.5	356.5	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
Total metered sales	18,714.8	18,568.2	(146.6)	-0.8%
Flat Rate Sales				
Residential	16,186.4	16,186.4	0.0	0.0%
Unaccounted For Water 8.00%	3,034.9	3,022.1	(12.8)	-0.4%
Total delivered	37,936.1	37,776.7	(159.4)	-0.4%
Supply				
Company Wells	21,985.3	21,825.9	(159.4)	-0.7%
Leased Wells	41.4	41.4	0.0	0.0%
Purchases - KCWA	5,662.8	5,662.8	0.0	0.0%
Surface Supply NE	8,294.9	8,294.9	0.0	0.0%
Surface Supply NW	1,951.7	1,951.7	0.0	0.0%
Total production	37,936.1	37,776.7	(159.4)	-0.4%

TABLE 2-6

CALIFORNIA WATER SERVICE COMPANY
BAKERSFIELD DISTRICT

OPERATING REVENUES

TEST YEAR 2007 - 2008

(AT PRESENT RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Metered Revenues				
Residential	14,096.9	14,096.9	0.0	0.0%
Business	7,952.9	7,952.9	0.0	0.0%
Multiple Family	2,482.9	2,333.9	(149.0)	-6.0%
Industrial	55.3	55.3	0.0	0.0%
Public Authority	2,793.9	2,793.9	0.0	0.0%
Other	484.5	484.5	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
Total General Metered	27,866.4	27,717.4	(149.0)	-0.5%
Flat Rate Revenues				
Residential Flat	20,949.8	20,949.8	0.0	0.0%
Private Fire Protection	320.6	320.6	0.0	0.0%
Public Fire Protection	10.2	10.2	0.0	0.0%
Other	88.5	88.5	0.0	0.0%
Total Flat Rate	21,369.1	21,369.0	-0.1	0.0%
Deferred Revenues	102.5	102.5	0.0	0.0%
Total revenues	49,338.0	49,188.9	(149.1)	-0.3%

TABLE 2-7

CALIFORNIA WATER SERVICE COMPANY
BAKERSFIELD DISTRICT

OPERATING REVENUES

TEST YEAR 2007 - 2008

(AT CWS PROPOSED RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Metered Revenues				
Residential	16,983.4	16,983.4	0.0	0.0%
Business	9,997.5	9,997.5	0.0	0.0%
Multiple Family	3,130.1	2,950.2	(179.9)	-5.7%
Industrial	73.6	73.6	0.0	0.0%
Public Authority	3,514.7	3,514.7	0.0	0.0%
Other	615.5	615.5	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
Total General Metered	34,314.8	34,134.9	(179.9)	-0.5%
Flat Rate Revenues				
Residential Flat	25,727.4	25,727.4	0.0	0.0%
Private Fire Protection	347.3	347.3	0.0	0.0%
Public Fire Protection	11.0	11.0	0.0	0.0%
Other	95.2	95.2	0.0	0.0%
Total Flat Rate	26,180.9	26,180.9	0.0	0.0%
Deferred Revenues	102.5	102.5	0.0	0.0%
Total revenues	60,598.2	60,418.3	(179.9)	-0.3%

CHAPTER 3: OPERATIONS AND MAINTENANCE EXPENSES

A. INTRODUCTION

This Chapter presents DRA's analyses and recommendations on Operation and Maintenance (O&M) expenses in the **Bakersfield District** of California Water Service Company (CWS). **Table 3-1** compared in detail DRA's and CWS' O&M estimates for the Fiscal Year 2007-2008. All DRA's estimates are in Nominal Dollars. Only CWS' total O&M Fiscal Years 2007-2008 and 2008-2009 dollar estimates were converted to Nominal dollars so that a comparison of the total expense estimates (DRA and CWS) at present rates for those years could be made; reference **Table 3-A:**

A comparison of total expense estimates (DRA and CWS) at present rates for these years are shown in **Table 3-A:**

Table 3-A: A comparison of total O&M expense estimates at present rates: DRA's and CWS' O&M estimates (Nominal dollars) for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009.

DRA: Fiscal Year 2007-2008	CWS: Fiscal Year 2007-2008	DRA: Fiscal Year 2008-2009	CWS: Fiscal Year 2008-2009	Utility Exceeds DRA Fiscal 2007-2008	Utility Exceeds DRA Fiscal 2007-2008
$19,023,700	$24,215,400	$19,332,500	$24,828,000	$5,191,700 27.3%	$5,495,500 28.4%

DRA's analyses of CWS' estimates for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009 include the following analyses as listed below—[(1) through (6)]--of CWS recorded historical expense trends (2000-2005) and CWS' estimates for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009; using estimates from 2006, 2007, and 2008.

(1) A 5-Year Regression Analysis (2001-2005)

(2) A 3-Year Regression Analysis (2003-2005)

(3) 5-Year Averages (2001-2005)

(4) 3-Year Averages (2003-2005)

(5) Last Year Recorded 2005

(6) Annualization of the Last 8-months of recorded data (January 2006-August 2006).

DRA selected the methodology that best fits CWS recorded historical expense trends (2000-2005) for its analysis and estimates for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009. All DRA estimates are in Nominal Dollars.

The inflation factors used by DRA are recommended by the Commission's Division of Ratepayers Advocates (DRA) Energy Cost of Service Branch (ECOS), which has traditionally handled inflation issues for the Commissions. A CWS Memorandum dated August 31, 2006 provided these factors. The Labor escalation factors are the Consumer Price Index for all Urban Consumers (CPI-U). The Non-Labor escalation factors are generated from a composite index of 10 Wholesale Price Indexes for material and supply expenses, and the CPI-U weighted 5% for services and consumer related items. The 60/40 factor is a composite index derived from weighting 60 percent Non-Labor and 40 percent for the Compensation per Hour Index. These indices are derived from the monthly DRI-WEFA publication, "U.S. Economic Outlook." The above indices and weightings are in conformance with an agreement reached between the Commission's Water Division and the California Water Association under the new rate case plan adopted in D.04-06-018. Ref. Table 3- B.

Table 3-B: : Escalation Factors

	Compensation per hour Non-farm rate		**Inflation Rates (%)**				**Composite Rates % 40/60 Split**	
Year	Calendar Annual % Changes	Fiscal Annual % Changes	Calendar		Fiscal		Calendar	Fiscal
			Non-Labor	Labor	Non-Labor	Labor		
1997	3.6	4.5	0.6	--	0.3	--	1.8	2.0
1998	5.3	4.9	0.0	2.3	0.4	1.9	2.1	2.2
1999	4.4	5.7	0.7	1.5	2.1	1.9	2.2	3.5
2000	6.9	4.8	3.5	2.2	1.8	2.8	4.9	3.0
2001	2.7	2.8	0.0	3.4	0.0	3.1	1.1	1.1
2002	2.8	3.4	0.0	2.8	1.3	2.2	1.1	2.1
2003	4.0	4.3	2.5	1.6	4.2	2.0	3.1	4.2
2004	4.5	4.8	5.8	2.3	5.7	2.5	5.3	5.3
2005	5.1	4.4	5.5	2.7	5.7	3.1	5.3	5.2
2006	3.7	3.8	5.9	3.4	4.4	3.5	5.0	4.2
2007	3.9	3.9	2.8	3.6	1.8	3.1	3.2	2.6
2008	3.8	3.9	0.7	2.5	0.4	2.2	1.9	1.8
2009	4.0	4.1	0.1	1.8	0.1	1.8	1.7	1.7
2010	4.1	--	0.0	1.7	--	--	1.6	--

B. SUMMARY OF RECOMMENDATIONS

DRA conducted independent analyses of CWS work papers and methods of estimating the Operating and Maintenance expenses for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009. With the exception of: Purchased water and power, payroll, purchased chemical, postage and conservation; CWS used a 5-year average of historical expenses adjusted for inflation for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009 expenses.

DRA used alternative projection methods which were then compared with CWS' projections and its historical operations. DRA projections are identified in Table 3-1 at the end of this Chapter. DRA estimated $19,023,700 and $19,332,500 for Fiscal Year

2007-2008 and Fiscal Year 2008-2009 expenses respectively. The methodologies used by DRA are discussed in the following sections. DRA recommends that the Commission adopts its O & M numbers as reasonable.

C. DISCUSSION

1) PURCHASED WATER

DRA used a trend analysis together with a 3-year average (2003-2005) for its estimates—Ref. Table 3-C. DRA estimated $3,408,400 and $3,471,800 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. It should be noted that DRA's analysis of the 2006 historical shows the annualized amount at $3,326,090. This amount is in line with DRA's estimates of $3,408,400 and $3,471,800 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. CWS estimated $6,074,500 and $6,242,100 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. CWS forecasted its purchased water costs by assuming it would first used all of its pumping rights of river water from the city of Bakersfield and then use water purchased from Kern County Water Agency to meet the balance of its water requirements. The contract between Kern County Water Agency and CWS Bakersfield require CWS to purchase 20,500AF/YR from Kern County Water Agency beginning in the year 2009-10 and expire in year 2034-35; this is up from the 11,500 AF/YR requirements in year 2000. The excess purchases (9,000 AF/YR) come at a cost of $1.9 million with a Redemption period/ life/payback period of the extra capacity (pipeline, canal, purification plant and or other facilities necessary to meet the extra capacity requirements) "Capital Costs/Bonds" and "Capital Facilities Charge" of 20 years. It should be noted that the new amendment with the County of Kern primarily benefit its new customers. Consistent with the Commission's long standing policy confirmed in D. 05-12-020, DRA recommends that the necessary costs to serve new customers when clearly attributable to new customers, should be recovered in the facilities charge, and not imposed on the existing customers.

CWS' forecasted purchased water costs are based on the projected amount of water purchased multiplied by the current water rates. Consumption and production

estimates are computed at the most current commodity rate and assessment rates from Kern County Water Agency with a unit cost per acre foot of $136. CWS purchases raw water from the City of Bakersfield for its NE & NW treatment plants at $74.82 per acre foot, and also purchases an insignificant amount from Verlan & Mary Wyatt.

DRA used a 3-year average to derive its estimates. It also should be noted that DRA's computed 2006 annualized amount of $3,326,090 is close to DRA's estimates of $3,408,400 and $3,471,800 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. Therefore, DRA ask that its estimates of $3,408,400 and $3,471,800 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be accepted with special conditions.

SPECIAL CONDITIONS FOR REDEMPTION OF THE CAPITAL COST & FACILITY CHARGES

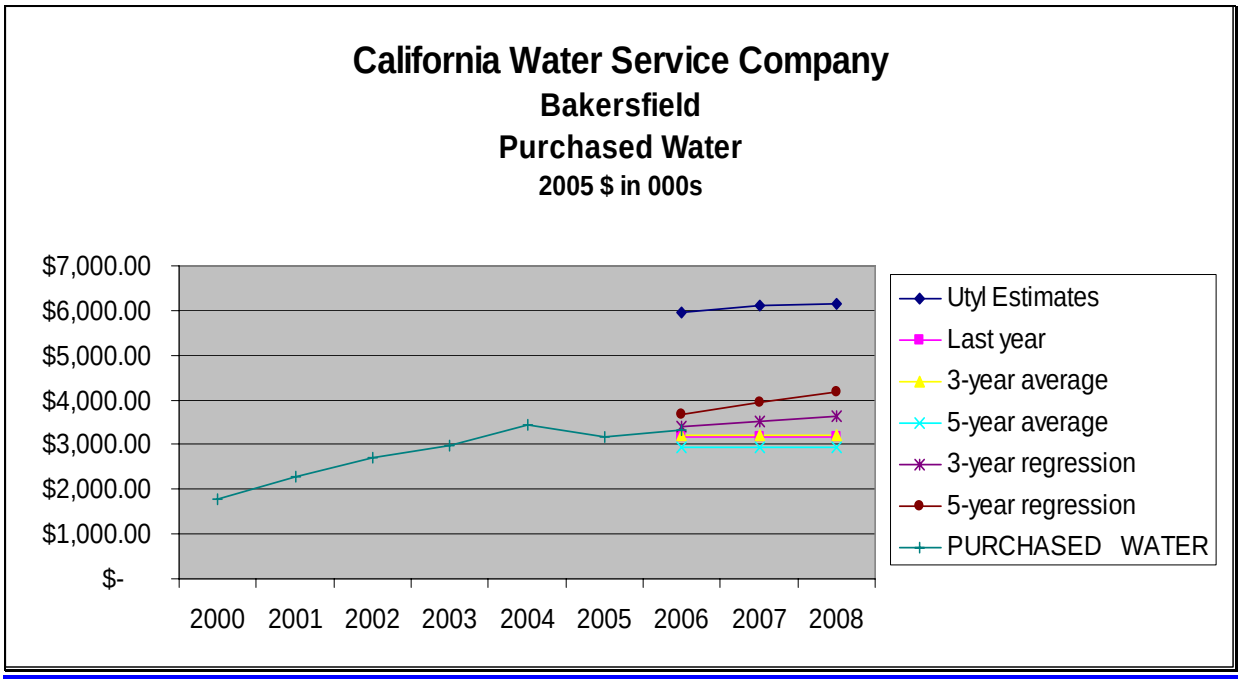
DRA ask that its estimates of $3,408,400 and $3,471,800 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 be in effect for those Fiscal Years, with the $1.9M paid by new customers in compliance with rule 15. This cost will be determined in CWS' Bakersfield next GRC when CWS starts to receive service from this expansion.

Purpose of new capacity is for new customers. CWS must follow rule 15 and require new customers in its next GRC to pay the fixed costs from advances from developers.

CWS' 2006 estimate is $26 million more than the 2006 equalized number.

Table 3-C: Purchased Water—Trend Analysis

California Water Service Company									
Bakersfield									
Purchased Water									
2005 $ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							$5,948.50	$6,107.48	$6,150.98
Last year							$3,187.30	$3,187.30	$3,187.30
3-year average							$3,206.01	$3,206.01	$3,206.01
5-year average							$2,924.46	$2,924.46	$2,924.46
3-year regression							$3,420.36	$3,527.54	$3,634.71
5-year regression							$3,683.30	$3,936.25	$4,189.19
PURCHASED WATER	$1,765.66	$2,298.65	$2,705.63	$2,972.95	$3,457.79	$3,187.30	$3,326.09		



2) PRODUCED WATER: GROUND WATER EXTRACTION CHARGES

CWS Replenishment Assessment Charges are zero ($0.0).

3) REPLISHMENT ASSESSMENT

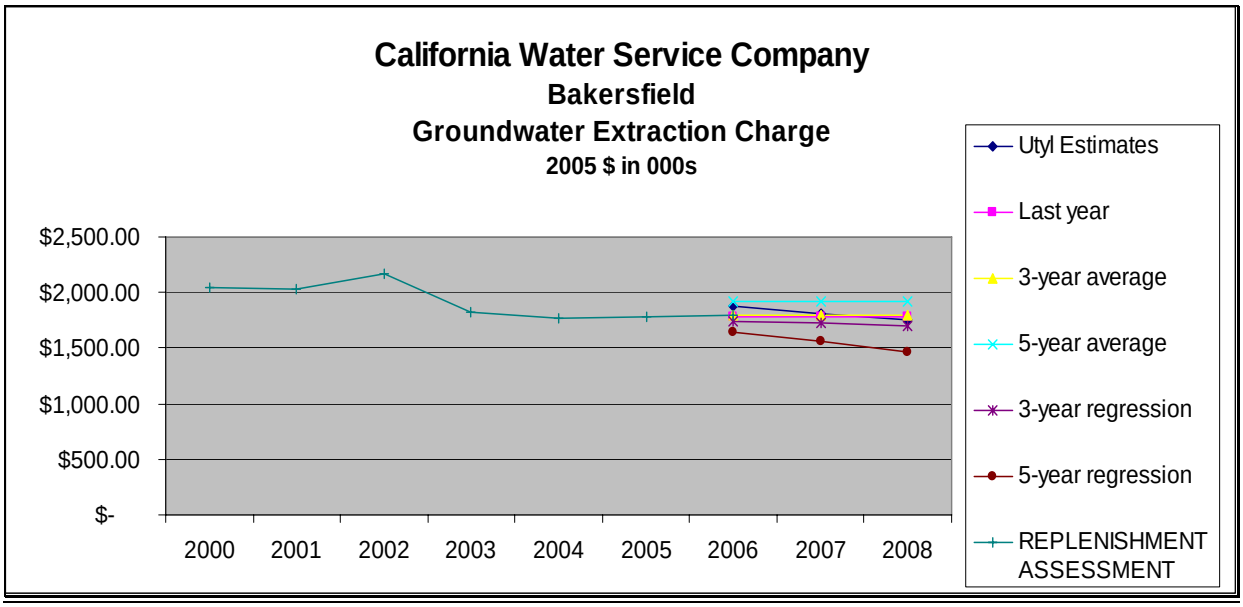
CWS estimated ground water fees in the Bakersfield District by applying the most recent extraction rates multiplied by the projected ground water production. If the Groundwater Extraction Charges are outside of the rate case process—CWS uses the Commission's "offset" process to change water rates. DRA estimated $1,883,300 and $1, 873,300 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively—

reference table 3-D. CWS estimated $1,889,300 and $1,867,300 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. It should be pointed out that the sum total of CWS' and DRA's estimates for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively is identical ($3,756,600).

Therefore, DRA accepts CWS' estimates of $1,889,300 and $1,867,300 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

Table 3-D: Groundwater Extraction Charges

California Water Service Company Bakersfield Groundwater Extraction Charge 2005 $ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							$1,871.79	$1,804.28	$1,750.49
Last year							$1,779.10	$1,779.10	$1,779.10
3-year average							$1,792.82	$1,792.82	$1,792.82
5-year average							$1,915.28	$1,915.28	$1,915.28
3-year regression							$1,744.48	$1,720.31	$1,696.14
5-year regression							$1,646.68	$1,557.15	$1,467.62
REPLENISHMENT ASSESSMENT	$2,046.85	$2,027.52	$2,170.40	$1,827.44	$1,771.92	$1,779.10	$1,796.52		



4) PURCHASED POWER

Purchased power is the cost of electricity needed to operate a district, including the power used in pumping and delivering water. The estimate of purchased power varies from year to year, and month to month based on differences in local demand,

maintenance schedules, and other operational considerations such as the quality of water delivered. This calculation also takes into account the historical ratio of electricity used to the amount of water pumped.

CWS' estimates of purchased power costs per production unit were based on usage patterns of each production component, using a model of power cost per kilowatt-hour at various levels of production. CWS model estimates costs per kilowatt-hour at current rates (Pacific Gas and Electric Company schedules effective May1, 2006) using the historical average of kilowatt-hours per unit of production and the last three years of recorded data (2003-2005). Because fixed components of the bill are spread over more units of production, the costs per kilowatt-hour generally decline with increasing uses. When the data (kilowatt-hour) used shows a specific pattern, CWS uses a forecast methodology to predict estimated power cost from the estimated kilowatt-hour demand. If no specific patterns are observed, CWS uses an average such as a 5-year average.

In the Bakersfield District, CWS estimates the power costs independently for its Wells, Boosters and the NE and NW treatment plants. In the NW treatment plant, CWS uses the Oroville treatment—similar in size as comparison in estimating the power usage per unit of production. Since the water mix changes, the independent analysis is adequate for estimating power costs.

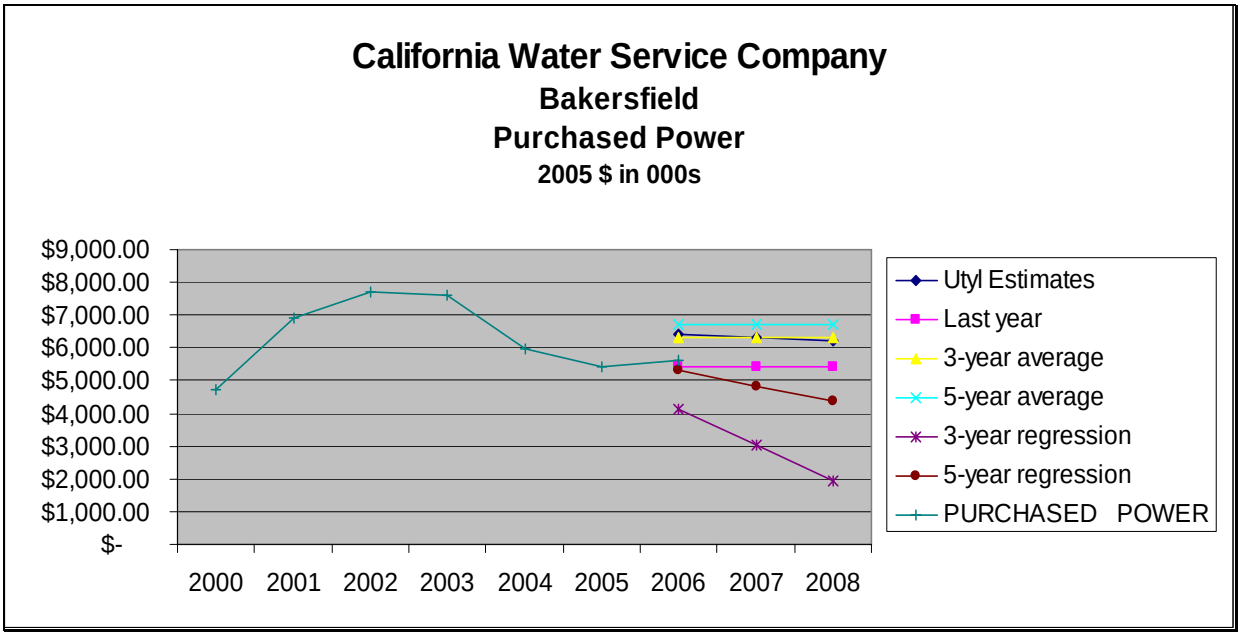
For Boosters, CWS uses the average power costs to forecast booster power costs. In the case of Bakersfield wells and the NE treatment plant, the CWS model uses the forecast methodology to estimate the kilowatt-hour used. CWS estimated $6,599,000 and $6,719,600 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

DRA estimated $5,749,200 for Fiscal Year 2007-2008 and $5,856,300 for the Fiscal Year 2008-2009. For the Test Year 2006-2007 estimates, DRA used the last year (2005) recorded amount adjusted for inflation. Reference Table 3-E. It should be pointed out that the DRA's computed 2006 annualized data is $5,620,580, which is in line with DRA's estimates for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. In addition CWS recorded cost have been decreasing from 2002 to 2005.

Therefore, DRA ask that its estimates of $5,749,200 for Fiscal Year 2007-2008 and $5,856,300 for the Fiscal Year 2008-2009 be accepted.

Table 3-E: Purchased Power Analysis

California Water Service Company Bakersfield Purchased Power 2005 $ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							$6,409.70	$6,294.58	$6,227.61
Last year							$5,407.90	$5,407.90	$5,407.90
3-year average							$6,324.07	$6,324.07	$6,324.07
5-year average							$6,710.20	$6,710.20	$6,710.20
3-year regression							$4,126.32	$3,027.44	$1,928.56
5-year regression							$5,300.43	$4,830.51	$4,360.58
PURCHASED POWER	$4,707.38	$6,894.91	$7,683.87	$7,605.66	$5,958.66	$5,407.90	$5,620.58		



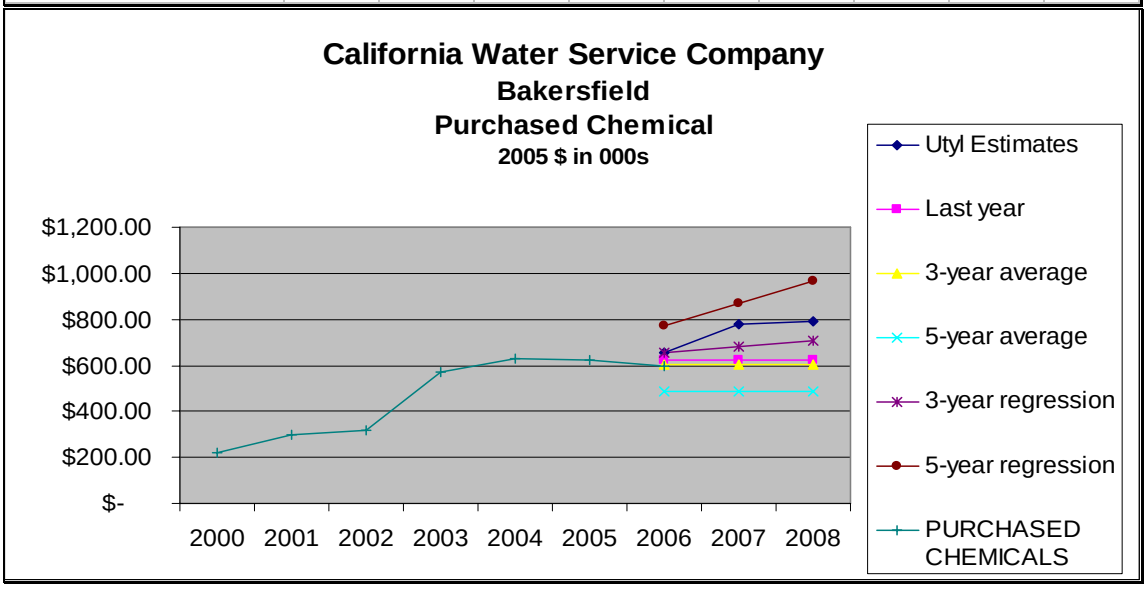
5) PURCHASED CHEMICAL

CWS Purchased Chemical expenses are a function of annual water productions and the cost of chemical. CWS estimates are based on the last 3-years average unit production adjusted for inflation. CWS estimated expenses are $836,400 for Fiscal Year 2007-2008 and $861,700 for Fiscal Year 2008-2009 respectively. It should be pointed out that the DRA's 2006 annualized data is $599,280, which is in line with DRA's estimates for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. Using last year's recorded 2006 annualized historical, costs are level from 2003.. Ref. table 3-F.

Therefore, DRA accepts CWS estimates of $831,600 for Fiscal Year 2007-2008 and $859,800 for Fiscal Year 2008-2009 respectively.

Table 3-D: Purchased Chemicals

California Water Service Company Bakersfield Purchased Chemicals 2005 $ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							$656.42	$776.14	$788.15
Last year							$620.30	$620.30	$620.30
3-year average							$605.64	$605.64	$605.64
5-year average							$485.65	$485.65	$485.65
3-year regression							$655.35	$680.21	$705.06
5-year regression							$773.27	$869.14	$965.02
PURCHASED CHEMICALS	$221.82	$296.57	$314.78	$570.59	$626.04	$620.30	$599.28		



6) LABOR

Labor costs included payroll expenses, wages and salaries and overtime for district personnel. However, labor costs does not include benefits, the benefits costs are included in the General Office labor accounts. CWS capitalizes labor expenses for its districts. A historic five-year average of capitalized payroll was applied to the total payroll to calculate a capitalized payroll percentage of **8.15**%. The capitalized payroll percentage was applied to total forecasted labor expenses for the base year 2006 and the Fiscal Year 2007-2008 and Fiscal Year 2008-2009.

Labor is broken down into O&M and A&G categories based on the 2005 recorded costs for each category. CWS O&M payroll category included Operation Payroll and Maintenance Payroll. DRA estimates of A&G labor are based on a percentage allocation of the total (100%) Operating Payroll. DRA's estimates of A&G labor for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 are described in Chapter 4.

CWS did ask for additional staff for its Bakersfield district in Years 2006, 2007 and 2008. Reference Table 3-G.

Table 3-G: CWS Request for Additional Workers

District	Bakersfield	Bakersfield	Bakersfield
Year	2006	2007	2008
Personnel	4 Treatment Plant Operators 1 Electrical Maintenance. Tech 1 Meter Reader	1 Meter Reader 1 Serviceperson 1 Customer Service Mgr. 1 Inspector	1 Meter Reader 1 Meter Repair Pers

7) OPERATION PAYROLL

Operation payroll: CWS used the last recorded year (2005) as its base year for estimating the labor costs. The payroll expenses are based on the existing district's payroll levels adjusted for new employees and escalated by CWS labor inflation factors which are 3.5% for 2006—based on union contracts—and 3.5% for 2007. There is no union contract for 2008.

DRA challenged CWS Operation Payroll estimates for the 2006, 2007 and 2008 and the Fiscal Year 2007-2008 and Fiscal Year 2008-2009. DRA based its estimates on last year recorded amount adjusted for inflation.

DRA estimated $2,844,200 and $2,897,100 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively are based on a 3-year average. Reference Table 3-H. It should be pointed out that the DRA's computed 2006 annualized amount is $2,732,750,

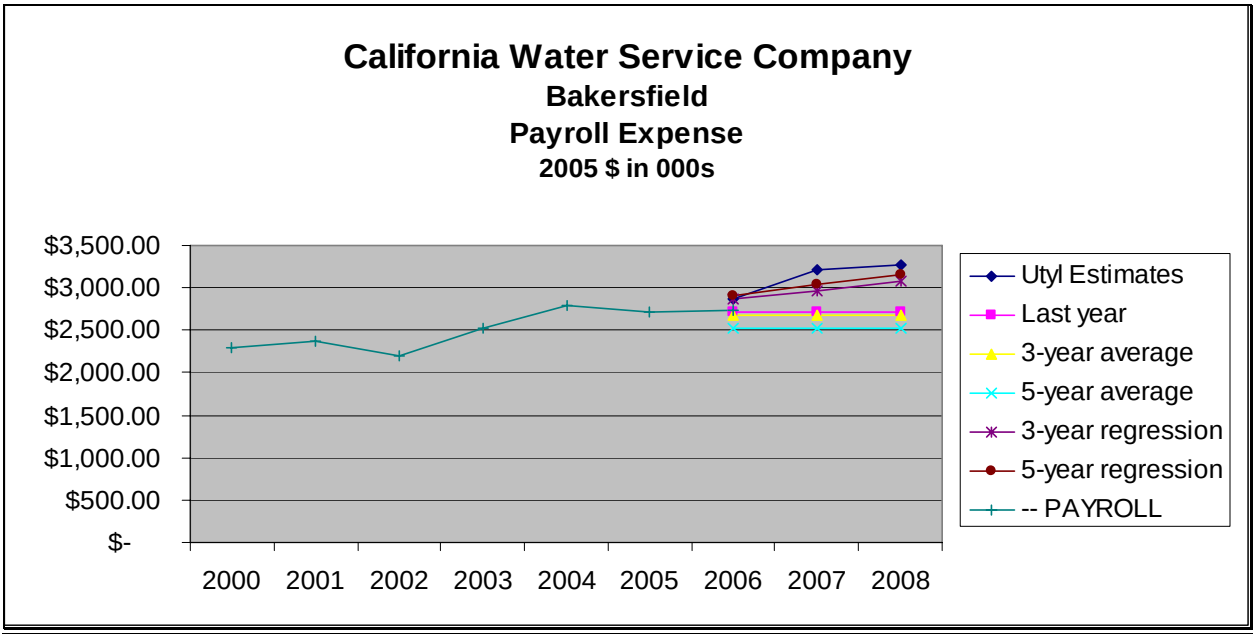
which is in line with DRA's estimates for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. In addition DRA's computed 2006 annualizes payroll costs and the recorded 2004 and 2005 payroll costs are level. Ref. table 3-F.

CWS estimated $3,530,400 and $3,659,600 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

DRA ask that its estimates $2,844,200 and $2,897,100 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be accepted.

Table 3-H: Operation Payroll

California Water Service Company Bakersfield Other Payroll 2005 $ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							$2,873.62	$3,208.85	$3,268.01
Last year							$2,718.40	$2,718.40	$2,718.40
3-year average							$2,675.30	$2,675.30	$2,675.30
5-year average							$2,519.94	$2,519.94	$2,519.94
3-year regression							$2,874.41	$2,973.97	$3,073.53
5-year regression							$2,904.73	$3,032.99	$3,161.26
-- PAYROLL	$2,295.38	$2,368.57	$2,205.22	$2,519.28	$2,788.20	$2,718.40	$2,732.75		



8) POSTAGE

Postage costs are a function of postage rates, the number of customers and the number of annual mailings to each customer. CWS used the last recorded year (2005)

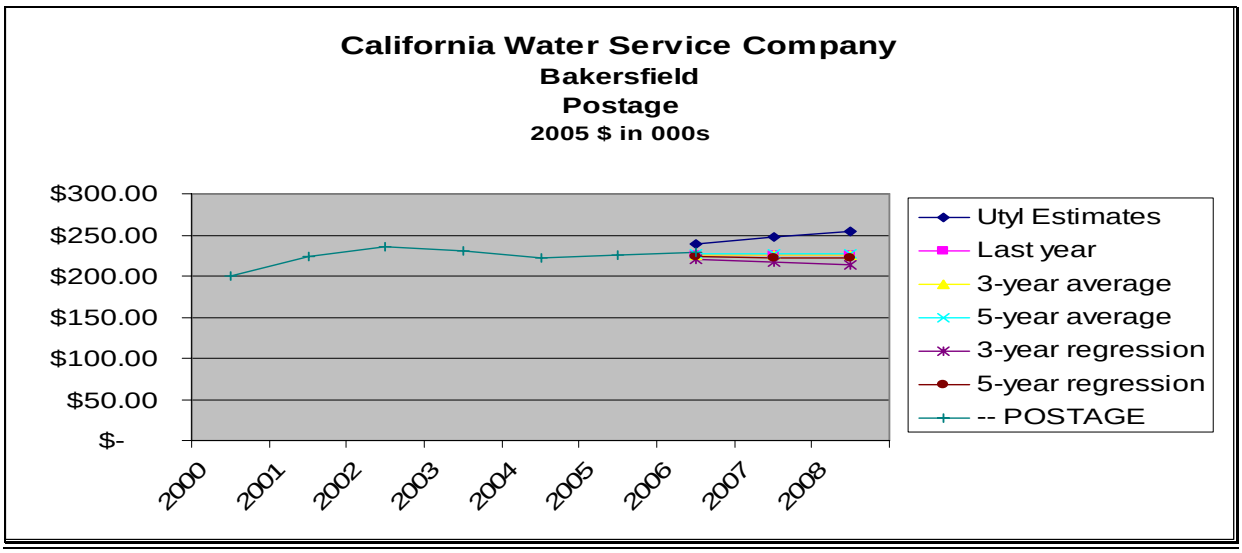
adjusted for inflation. CWS estimated $267,100 and $276,900 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA used a 5-year regression to estimate its numbers. Reference Table 3-I.

DRA estimated $235,900 and $239,000 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. It should be pointed out that the DRA's computed 2006 annualized data is $229,280; which is in line with DRA's estimates for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. In addition, CWS postage costs have been relatively level from 2001-2005. Ref. table 3-I.

Therefore, DRA ask that its estimates of $235,900 and $239,000 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be adopted.

Table 3-I: Postage Expenses

California Water Service Company									
Bakersfield									
Postage									
2005 $ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							$239.62	$248.08	$253.92
Last year							$224.80	$224.80	$224.80
3-year average							$225.84	$225.84	$225.84
5-year average							$227.56	$227.56	$227.56
3-year regression							$220.08	$217.19	$214.31
5-year regression							$223.82	$222.57	$221.32
-- POSTAGE	$199.61	$223.96	$236.34	$230.57	$222.16	$224.80	$229.28		

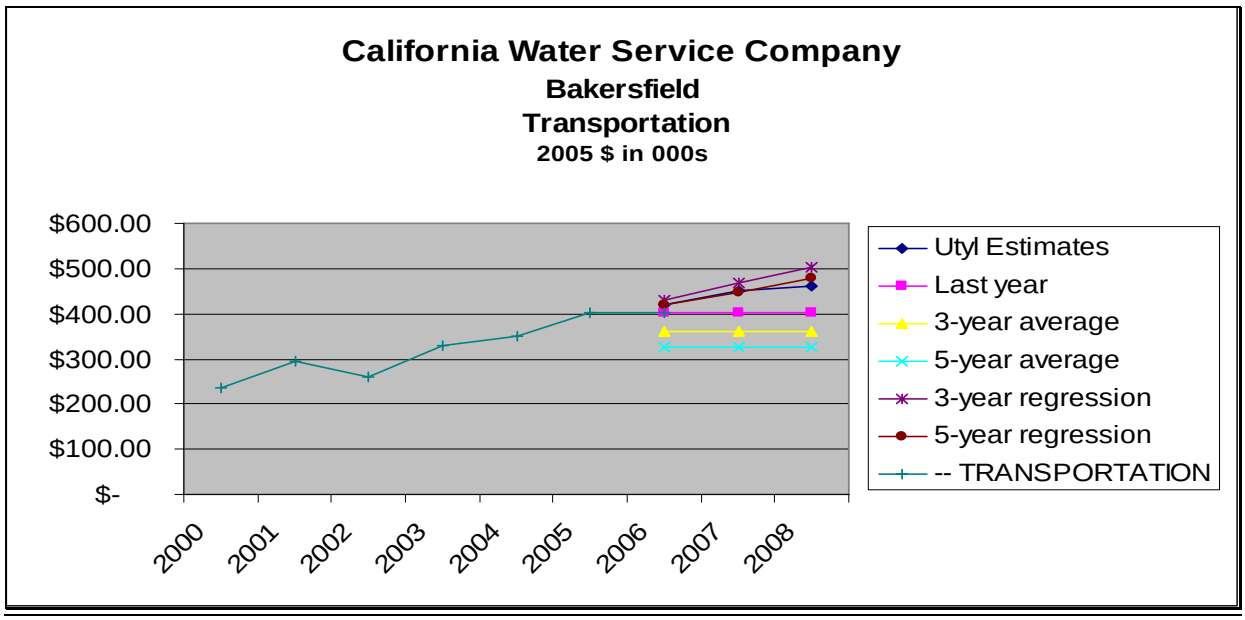


9) TRANSPORTATION

CWS estimated Transportation expenses at $486,600 and $504,400 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA finds CWS estimates reasonable and therefore accepts CWS' estimates of $486,600 and $504,400 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. Reference table 3-J.

Table 3-J: Transportation

California Water Service Company Bakersfield Transportation 2005 $ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							$420.28	$451.67	$459.75
Last year							$401.20	$401.20	$401.20
3-year average							$360.36	$360.36	$360.36
5-year average							$327.14	$327.14	$327.14
3-year regression							$431.41	$466.93	$502.45
5-year regression							$418.15	$448.49	$478.83
-- TRANSPORTATION	$234.32	$294.14	$260.47	$330.16	$349.73	$401.20	$400.58		



10) UNCOLLECTIBLES

CWS estimated Uncollectible expense rates at 0.61% for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA accepts CWS estimates of 0.61% for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

11) SOURCE OF SUPPLY

CWS estimated Source of Supply expenses at $1,400 and $1,500 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA accept CWS estimates of $1,400 and $1,500 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

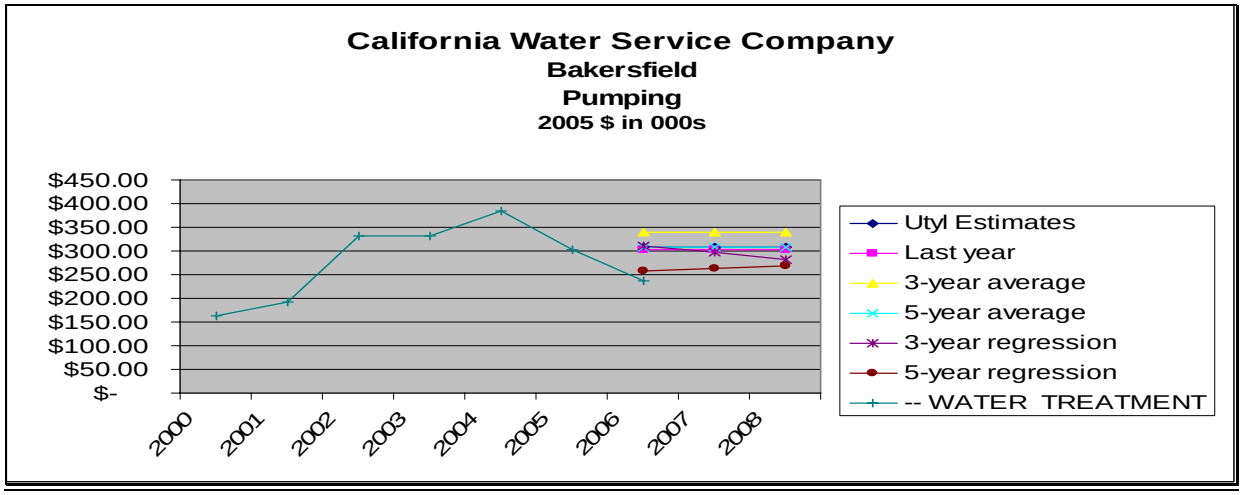
12) PUMPING EXPENSES

This expense category track costs of equipment, materials and other Misc. pumping costs and outside services related to pumping. CWS estimated Misc. pumping costs at $261,900 and $271,500 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA estimated $254,000 and $258,700 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA used last year recorded (2005) adjusted for inflation. Ref. Table 3-K. Since DRA's computed 2006 annualized amount ($238,120) is in line with DRA's estimates for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. Note, CWS costs have been decreasing, reference 2004, 2005 and 2006 annualized amounts. CWS' projections do not follow this trend.

DRA ask that its estimates of $254,000 and $258,700 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be accepted.

Table 3-K: Pumping Expenses

California Water Service Company									
Bakersfield									
Pumping									
2005 $ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							$308.41	$308.39	$308.38
Last year							$302.80	$302.80	$302.80
3-year average							$339.00	$339.00	$339.00
5-year average							$308.38	$308.38	$308.38
3-year regression							$310.87	$296.81	$282.74
5-year regression							$258.16	$262.64	$267.13
-- WATER TREATMENT	$163.97	$192.86	$332.04	$330.93	$383.28	$302.80	$238.12		



13) WATER TREATMENT

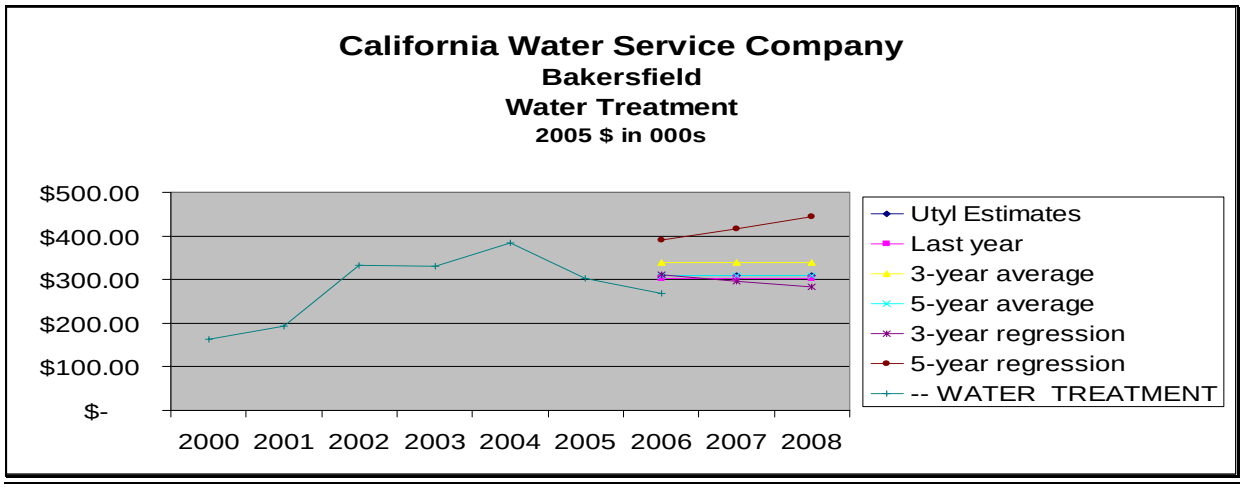
Water treatment costs tracks material, equipment maintenance, and outside services relating to the operation of treatment plant. Chemical costs are accounted for separately. CWS estimated Water Treatment expenses at $330,100 and $342,100 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA used last year recorded (2005) adjusted for inflation to estimate Fiscal Years 2007-2008 and 2008-2009 dollar amounts i.e. $321,900 and $327,900 respectively. Ref. Table 3-L. DRA's computed 2006 annualized amount ($268,260) is in line with DRA's estimates for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. Note, CWS' water treatment costs have been decreasing (reference 2004, 2005 and the 2006 annualized

amounts), however, CWS' projections do not take this trend into consideration. The annualized 2006 costs are $40,000 below CWS' 2006 projection.

For the reasons above, DRA ask that its estimates of $321,900 and $327,900 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be accepted.

Table 3-L: Water Treatment.

California Water Service Company Bakersfield Water Treatment 2005 $ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							$ 308.41	$ 308.39	$ 308.38
Last year							$ 302.80	$ 302.80	$ 302.80
3-year average							$ 339.00	$ 339.00	$ 339.00
5-year average							$ 308.38	$ 308.38	$ 308.38
3-year regression							$ 310.87	$ 296.81	$ 282.74
5-year regression							$ 389.72	$ 416.83	$ 443.94
-- WATER TREATMENT	$ 163.97	$ 192.86	$ 332.04	$ 330.93	$ 383.28	$ 302.80	$ 268.26		



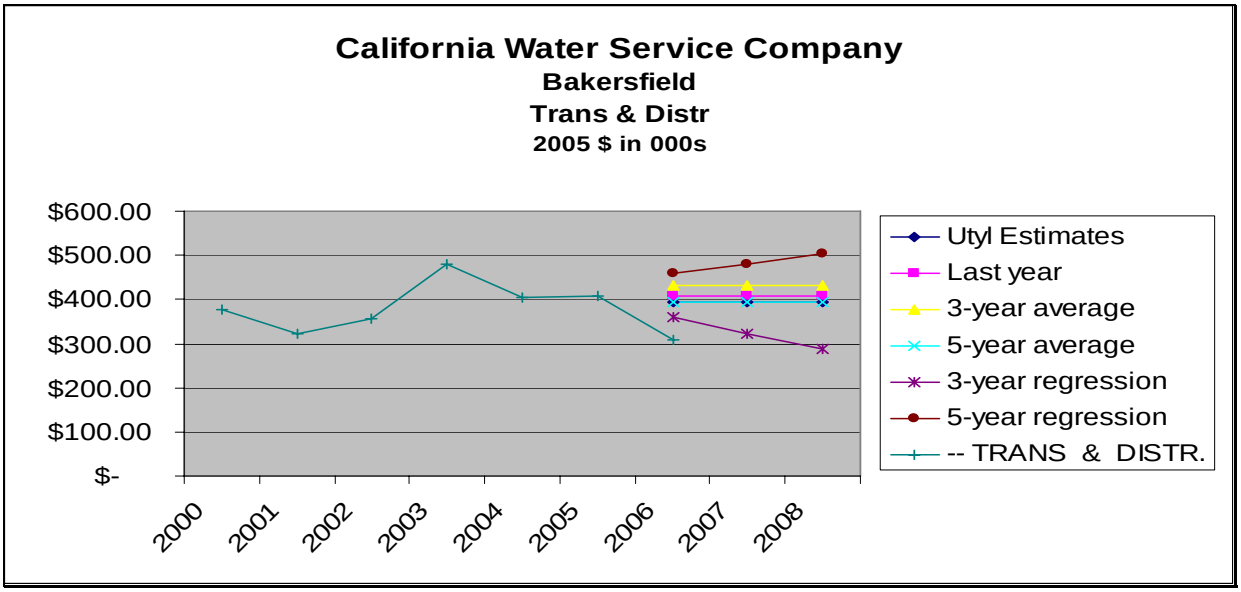
14) TRANSMISSION AND DISTRIBUTION

CWS estimated Transmission and Distribution Misc. expenses for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009 to be $422,100 and $437,600 respectively. DRA estimated $419,200 and $427,000 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA's computed 2006 annualized amount ($307,540) is in line with its estimates--using a 5-year average--for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. CWS' Transmission and Distribution costs have been decreasing generally since 2003 and its annualized 2006 costs are $87,000 below their 2006 projection. Ref. Table 3-M.

DRA ask that its estimates of $419,200 and $427,000 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be accepted.

Table 3-M: Transmission and Distribution

California Water Service Company Bakersfield Trans & Distr 2005 $ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							$394.30	$394.32	$394.31
Last year							$407.70	$407.70	$407.70
3-year average							$430.75	$430.75	$430.75
5-year average							$394.32	$394.32	$394.32
3-year regression							$359.46	$323.82	$288.18
5-year regression							$459.75	$481.56	$503.38
-- TRANS & DISTR.	$377.14	$323.51	$355.83	$478.99	$405.56	$407.70	$307.54		



15) CUSTOMER ACCOUNTING

CWS estimated Customer Accounting expenses for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009 to be $(-40,100) and $(-41,600) respectively.

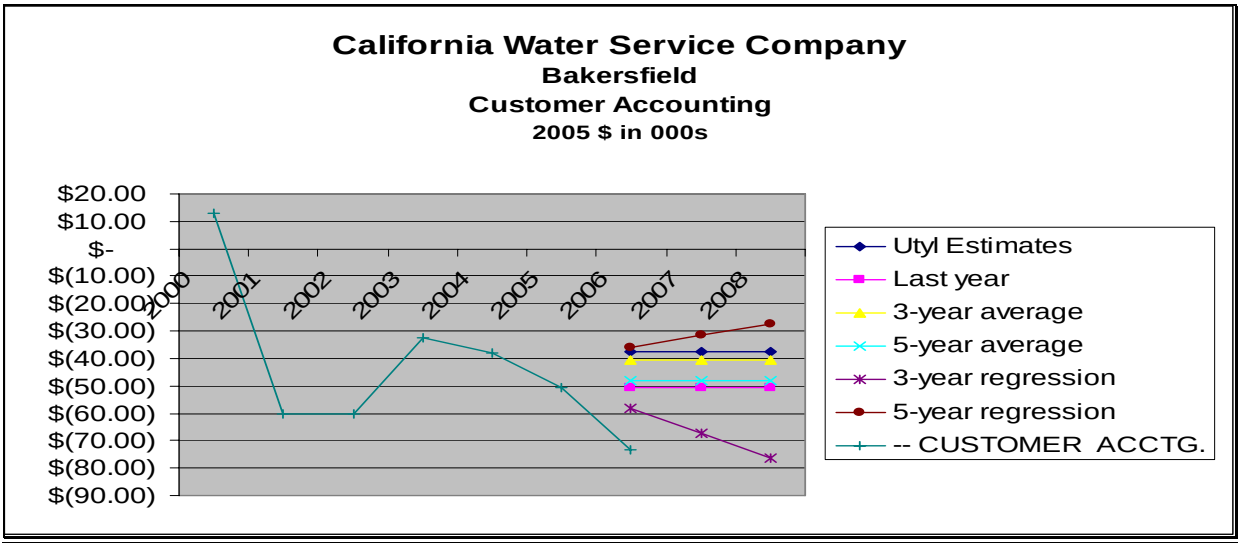
DRA estimated $(-76,500) and $(-87,400) for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively using a 3-year regression analysis. Reference Table 3-N.

Since 2006 DRA's computed annualized amount (-$73,330) is in line with DRA's estimates for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively; and CWS costs have been decreasing since 2003, DRA ask that its estimates of $(-76,500)

and $(-87,400) for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be accepted.

Table 3-N: Customer Accounting

California Water Service Company Bakersfield Customer Accounting 2005 $ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							$(37.39)	$(37.41)	$(37.37)
Last year							$(50.70)	$(50.70)	$(50.70)
3-year average							$(40.41)	$(40.41)	$(40.41)
5-year average							$(48.37)	$(48.37)	$(48.37)
3-year regression							$(58.39)	$(67.39)	$(76.38)
5-year regression							$(35.81)	$(31.62)	$(27.44)
-- CUSTOMER ACCTG.	$12.97	$(60.47)	$(60.14)	$(32.72)	$(37.82)	$(50.70)	$(73.33)		



16) CONSERVATION

Under the Memorandum of Understanding on Urban Water Conservation , CWS must implement cost-effective programs when they are funded by the Commission. Programs break down for conservation and estimates are based on the Urban Water Management Plan. In 1991, the California Urban Water Conservation Council (CUWCC) crafted a Memorandum of Understanding (MOU) regarding Urban Water Conservation in California. Signatories of the MOU identified 14 Best Management Practices (BMPs) for water conservation—a very ambitious program. However, fifteen years to date, the implementation of these programs is far from being successful. While CWS has been a member of the CUWCC for 15 years, most utilities are reluctant to spend money on

conservation programs because these programs decrease their earnings. DRA's policy however needs three items to be included conservation expenses. The first is a history of conservation expenditures. Second, DRA also needs a cost-benefit analysis above 1. And, finally, DRA needs the benefits included in the utility's RO model. CWS does not have a history of spending funds on conservation programs. CWS—Bakersfield has not spent more than $20,000 on conservation in the recorded years 2001-2005, however CWS is requesting $714,100 in 2006 expenses. This is a 4667.3% over the 2005 recorded costs. It should be pointed out that although CWS provided cost benefit analysis showing a Benefit/Cost Ratios between 1.2 and 1.9; there are BMPs for which no cost benefit analysis were provided and one where the ratio was 0.5 i.e. Water Survey Programs for Single-family Residential and Multi-family Residential Customers—with an estimated cost of $1,314,807. DRA believe that the BMPs with no cost benefit analysis and the one with a 0.5 ratio should be removed from rate base. For those with ratios between 1.2 and 1.9 CWS did not include any conservation benefits in its RO model and is requesting a 4667.3% increase in its conservation expenses without providing a single dollar in benefits to the ratepayers.

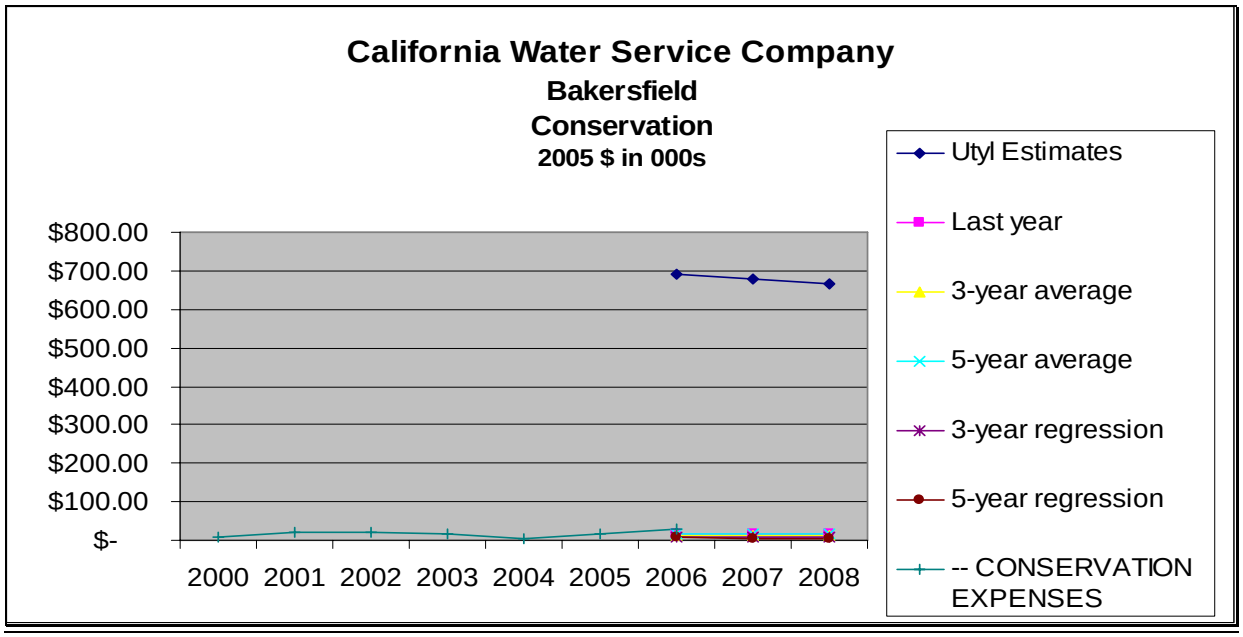
CWS CONSERVATION PROGRAM

CWS estimated $714,100 for 2006, 2007 and for 2008. CWS estimates for Fiscal Years 2007-2008 and 2008-2009 are $714,100 and $740,300 respectively; this represents a 4667.3% and 4838.6% respectively over 2005, the last recorded year. CWS 2005 recorded amount for conservation was $15,300. Therefore, for the reasons discussed above--DRA believe there is no basis for these exceptionally large increases over the 2005 recorded amount. Since DRA's computed 2006 annualized amount ($29,280), DRA based its Fiscal Year 2007-2008 estimate on the annualized ($29,280) amount. This amount was adjusted for inflation for Fiscal Year 2008-2009 i.e. ($30,240). Ref. Table 3-O.

DRA ask that its estimates of $29,280 and $30,420 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be adopted.

Table 3-O Conservation Expenses

California Water Service Company Bakersfield Conservation 2005 $ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							$689.97	$678.04	$665.53
Last year							$ 15.30	$ 15.30	$ 15.30
3-year average							$ 12.99	$ 12.99	$ 12.99
5-year average							$ 16.03	$ 16.03	$ 16.03
3-year regression							$ 10.10	$ 8.66	$ 7.21
5-year regression							$ 7.98	$ 5.29	$ 2.61
-- CONSERVATION EXPENSES	$ 8.06	$ 21.74	$ 19.44	$ 18.19	$ 5.48	$ 15.30	$ 29.28		



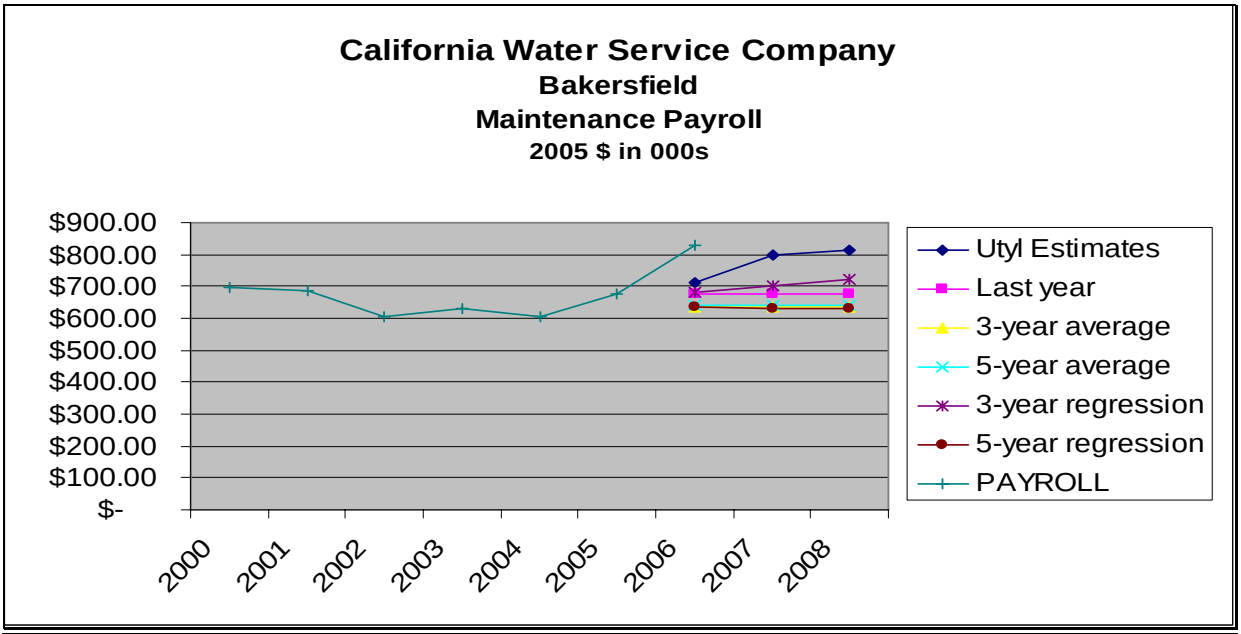
17) MAINTENANCE: PAYROLL

CWS estimated $877,100 and $909,200 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

DRA estimated $670,200 and $680,300 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively by using a 5-year regression analysis. CWS historical recorded maintenance payroll has been relatively stable from 2000-2005.Ref. Table3-P. DRA ask that its estimates of $670,200 and $680,300 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be accepted.

Table 3-P: Maintenance Payroll

California Water Service Company Bakersfield Maintenance Payroll 2005 $ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							$713.91	$797.22	$811.93
Last year							$675.40	$675.40	$675.40
3-year average							$637.38	$637.38	$637.38
5-year average							$640.50	$640.50	$640.50
3-year regression							$680.73	$702.40	$724.08
5-year regression							$633.80	$631.56	$629.33
PAYROLL	$695.90	$687.49	$602.88	$632.05	$604.70	$675.40	$829.57		



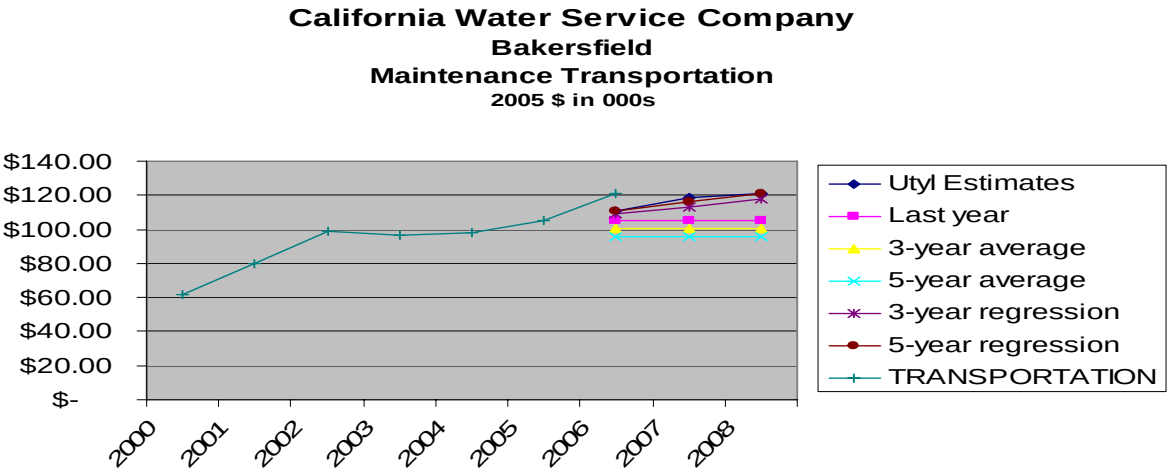
18) MAINTENANCE: TRANSPORTATION

CWS estimated Maintenance Transportation expenses at $128,000 and $132,700 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

DRA computed 2006 annualized data is $121,010 (reference table 3-Q) which is in line with CWS estimates for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA accepts CWS estimates of $128,000 and $132,700 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

Table 3-Q: Maintenance Transportation

California Water Service Company									
Bakersfield									
Maintenance Transportation									
2005 $ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							$110.52	$118.77	$120.90
Last year							$105.50	$105.50	$105.50
3-year average							$100.13	$100.13	$100.13
5-year average							$ 95.83	$ 95.83	$ 95.83
3-year regression							$109.03	$113.48	$117.93
5-year regression							$111.05	$116.12	$121.19
TRANSPORTATION	$61.71	$79.78	$99.02	$96.60	$98.28	$105.50	$121.01		

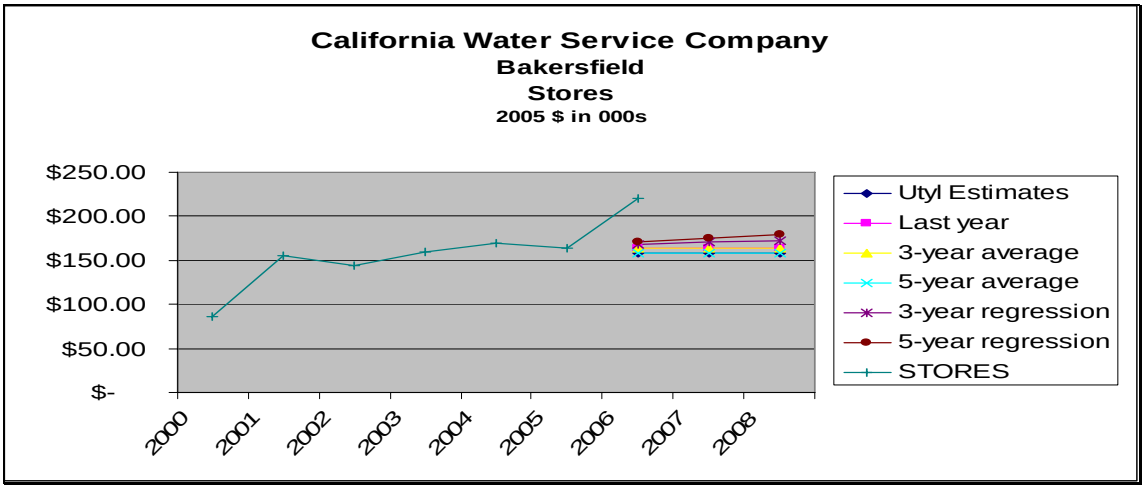


19) MAINTENANCE: STORES

CWS estimated Stores expenses at $169,700 and $175,900 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA computed 2006 annualized data is $220,290 (reference table 3-R) which is in line with CWS estimates for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA accepts CWS estimates of $169,700 and $175,900 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

Table 3-R: Maintenance Stores

California Water Service Company Bakersfield Maintenance Stores 2005 $ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							$158.55	$158.56	$158.53
Last year							$163.90	$163.90	$163.90
3-year average							$164.33	$164.33	$164.33
5-year average							$158.53	$158.53	$158.53
3-year regression							$168.64	$170.79	$172.95
5-year regression							$171.16	$175.37	$179.58
STORES	$86.72	$155.51	$144.18	$159.59	$169.49	$163.90	$220.29		



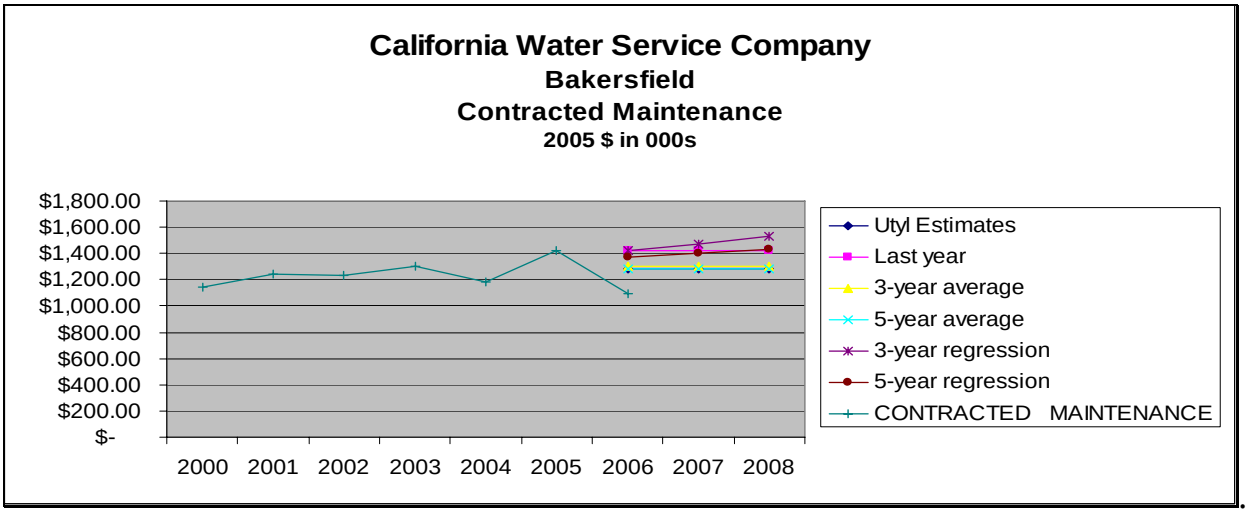
20) MAINTENANCE: CONTRACTED MAINTENANCE

CWS estimated Contracted Maintenance expenses for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively at $1,368,000 and $1,418,100. DRA estimated $1,358,700 and $1,384,000 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively using a 5-year average adjusted for inflation. It should be pointed out that the 2006 annualized amount is $1,094,780. Ref. Table 3-S.

Therefore, DRA ask that its estimates of $1,358,700 and $1,384,000 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be accepted.

Table 3-S: Contracted Maintenance

California Water Service Company									
Bakersfield									
Contracted Maintenance									
2005 $ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							$1,277.97	$1,277.99	$1,277.99
Last year							$1,420.60	$1,420.60	$1,420.60
3-year average							$1,305.23	$1,305.23	$1,305.23
5-year average							$1,277.98	$1,277.98	$1,277.98
3-year regression							$1,419.08	$1,476.00	$1,532.92
5-year regression							$1,372.95	$1,404.61	$1,436.27
CONTRACTED MAINTENANCE	$1,141.23	$1,238.76	$1,235.44	$1,306.76	$1,188.34	$1,420.60	$1,094.78		



D. CONCLUSION

Table 3-A reflects the reasonableness of DRA methodology and analysis of CWS O & M expenses.

TABLE 3-1

CALIFORNIA WATER SERVICE COMPANY
BAKERSFIELD DISTRICT

OPERATION AND MAINTENANCE EXPENSES

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
At present rates				
Operating Revenues	49,338.0	49,188.9		
Uncollectible rate	0.60960%	0.60960%		
Uncollectibles	300.8	299.9	(0.9)	-0.3%
Operation Expenses				
Purchased Water	3,408.4	6,074.5	2666.1	78.2%
Replenishment Assessment	1,889.3	1,889.3	0.0	0.0%
Groundwater Extraction Charges	0.0	0.0	0.0	0.0%
Purchased Power	5,749.2	6,599.0	849.8	
Purchased Chemicals	831.6	836.4	4.8	0.6%
Payroll	2,844.2	3,530.4	686.2	24.1%
Postage	235.9	267.1	31.2	13.2%
Transportation	486.6	486.6	0.0	0.0%
Uncollectibles	300.8	299.9	(0.9)	-0.3%
Source of Supply	1.4	1.4	0.0	0.0%
Pumping	254.0	261.9	7.9	3.1%
Water Treatment	321.9	330.1	8.2	2.5%
Transmission & Distribution	419.2	422.1	2.9	0.7%
Customer Accounting	(76.5)	(40.1)	36.4	-47.6%
Conservation	31.1	714.1	683.0	2196.1%
Total Operation Expenses	16,697.1	21,672.7	4,975.6	29.8%
Maintenance Expenses				
Payroll	670.2	877.1	206.9	30.9%
Transportation	128.0	128.0	0.0	0.0%
Stores	169.7	169.7	0.0	0.0%
Contracted Maintenance	1358.7	1368.0	9.3	0.7%
Total Maintenence Expense	2,326.6	2,542.8	216.2	9.3%
Total O & M Expenses (incl uncoll)	19,023.7	24,215.4	5,191.7	27.3%
At proposed rates				
Operating Revenues	60,598.2	60,418.3		
Uncollectible rate	0.60960%	0.60960%		
Uncollectibles	369.4	368.3		
Total O & M Expenses (incl uncoll)	19,092.3	24,283.8	5,191.5	27.2%

CHAPTER 4: ADMINISTRATIVE & GENERAL EXPENSES

A. INTRODUCTION

This Chapter sets forth DRA's analysis and recommendations for CWS' Administrative & General (A&G) expenses including Payroll, Transportation Expenses, Rent, Administrative Charges Transferred, Non-specifics, Amortization of Limited Term Investments, and Dues and Donations Adjustments. All of DRA's estimates are in Nominal Dollars. A comparison of total expense estimates for Fiscal Test Years 2007 – 2008 is presented in Table 4–1.

B. SUMMARY OF RECOMMENDATIONS

DRA's estimated total for A&G expenses is $1,590,600 for Fiscal Test Year 2007-2008. CWS' estimate for the same time period is $1,818,900, or 14.4% more than DRA's. DRA's estimated total for A&G expenses is $1,620,300 for Fiscal Escalation Year 2008 – 2009. CWS' estimate for the same time period is $1,872,700, or 15.6% more than DRA's.

C. DISCUSSION

DRA conducted independent analysis of CWS' work papers and methods of estimating the A&G expenses. Other DRA witness recommend disallowing the intangible plant portion of this district's expenses for the years 2006 through 2009.

Concerning the Extended Service Protection (ESP) program included as administrative charges transferred, DRA adjusted it based upon the fact that CWS used 2005 numbers for Residential Metered and Flat Rate hookups. DRA decided to use Metered and Flat Rate forecasted residential hookups for 2006, because it reflects more recent data.

DRA's analysis of CWS' estimates for the Fiscal Year 2007-2008 included a five year trending analysis of the CWS' historical expenses which were

compared to CWS' requested dollar amounts for Fiscal Year's 2007-2008 and 2008-2009. This was done to ascertain the reasonableness of CWS' request. All of DRA's estimates are in nominal dollars. DRA reviewed and agrees with all other CWS' estimates.

The inflation factors DRA used are recommended by the Commission's Division of Ratepayers Advocates Energy Cost of Service Branch (ECOS), which has traditionally handled inflation issues for the Commissions. An ECOS memorandum dated August 31, 2006, provided the factors. The Labor escalation factors are the Consumer Price index for all Urban Consumers (CPI-U). The Non-Labor escalation factors are generated from a composite index of 10 Wholesale Price indexes for material and supply expenses, and the CPI-U weighted 5% for services and consumer related items. The 60/40 factor is a composite index derived from weighting 60 percent Non-Labor and 40 percent for the Compensation per Hour Index. These indices are derived from monthly DRI-WEFA publication, "U.S. Economic Outlook." The above indices and weightings are in conformance with an agreement reached between the Commission's Water Division and the California Water Association under the new rate case plan adopted in D.04-06-018. See Table 4-A.

TABLE 4 - A: ESCALATION FACTORS

	Compensation per hour Non-Farm Rate:		Inflation Rates (%)				Composite Rates % 40/60 Split	
Year	Calender Annual % Changes:	Fiscal Annual % Changes:	Calender Non-Labor	Labor	Fiscal Non Labor	Labor	Calendar	Fiscal
1997	3.6	4.5	0.6	--	0.3	--	1.8	2
1998	5.3	4.9	0	2.3	0.4	1.9	2.1	2.2
1999	4.4	5.7	0.7	1.5	2.1	1.9	2.2	3.5
2000	6.9	4.8	3.5	2.2	1.8	2.8	4.9	3
2001	2.7	2.8	0	3.4	0	3.1	1.1	1.1
2002	2.8	3.4	0	2.8	1.3	2.2	1.1	2.1
2003	4	4.3	2.5	1.6	4.2	2	3.1	4.2
2004	4.5	4.8	5.8	2.3	5.7	2.5	5.3	5.3
2005	5.1	4.4	5.5	2.7	5.7	3.1	5.3	5.2
2006	3.7	3.8	5.9	3.4	4.4	3.5	5	4.2
2007	3.9	3.9	2.8	3.6	1.8	3.1	3.2	2.6
2008	3.8	3.9	0.7	2.5	0.4	2.2	1.9	1.8
2009	4	4.1	0.1	1.8	0.1	1.8	1.7	1.7
2010	4.1	--	0	1.7	--	--	1.6	--

D. CONCLUSION

DRA recommends the Commission adopts DRA's numbers for this district.

TABLE 4-1

CALIFORNIA WATER SERVICE COMPANY
BAKERSFIELD DISTRICT

ADMINISTRATIVE & GENERAL EXPENSES

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
At present rates				
Oper. Rev. less uncoll.	49,037.2	48,889.0		
Local Franchise Rate	1.0950%	1.0950%		
Franchise tax	537.0	538.7	1.8	0.3%
Payroll	836.7	1,049.1	212.4	25.4%
Transportation Expenses	0.0	0.0	0.0	0.0%
Rent	6.5	6.5	0.0	0.0%
Admin Charges Trsf	(30.8)	(30.8)	0.0	0.0%
Nonspecifics	215.9	215.9	0.0	0.0%
Amort of Limited Term Inv.	27.4	41.7	14.3	52.2%
Dues & Donations Adjustment	(2.1)	(2.1)	0.0	0.0%
Total A & G Expenses	1,053.6	1,280.2	226.6	21.5%
(incl. local Fran.)	1,590.6	1,818.9	228.4	14.4%
At proposed rates				
Oper. Rev. less uncoll.	60,228.8	60,050.0		
Local Franchise Rate	1.0950%	1.0950%		
Fran. tax	659.5	660.1	0.6	0.1%
Total A & G Expenses	1,053.6	1,280.2	226.6	21.5%
(incl. local Fran.)	1,713.1	1,940.3	227.2	13.3%

CHAPTER 5: TAXES OTHER THAN INCOME

A. INTRODUCTION

This Chapter sets forth DRA's analysis and recommendations of Taxes Other Than Income for CWS for Fiscal Years 2007 – 2008, and 2008 – 2009. Taxes Other Than Income include ad valorem tax (property tax), business licenses, franchise, and payroll taxes. Ad valorem taxes are property taxes paid on net utility plant. Payroll taxes generally include social security tax, Federal Insurance Contribution ACT (FICA) tax consisting of Old Age Benefits and Medicare, Federal Unemployment Insurance (FUI), State Unemployment Insurance (SUI).

DRA and CWS estimates of Taxes Other Than Income for Fiscal Years 2007-2008 is included in the Table 5-1 at the end of the Chapter.

B. SUMMARY OF RECOMMENDATIONS

DRA agrees with the methodology that CWS proposes using to determine the estimated expenses for Fiscal Test Year 2007-2008, and 2008-2009 for ad valorem taxes. Additional differences in the taxes, or fees are due to differences between DRA and CWS' estimates of plant additions and payroll expenses. A comparison of DRA's and the company's estimates is shown in Table 5-1.

C. CONCLUSION

1) Ad Valorem Taxes - Differences between DRA and CWS are attributable to the differences in Plant estimates.

2) Payroll Taxes - Differences between DRA and CWS are attributable to the differences in payroll estimates.

DRA recommends the Commission adopts DRA's numbers for this district. See Table 5-1.

TABLE 5-1

CALIFORNIA WATER SERVICE COMPANY
BAKERSFIELD DISTRICT

TAX DEDUCTIONS AND CREDITS

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Ad Valorem taxes	1,125.3	1,278.3	153.0	13.6%
Local Franchise (pres rates)	537.0	538.7	1.8	0.3%
Local Franchise (prop rates)	659.5	660.1	0.6	0.1%
Social Security Taxes	461.2	578.6	117.4	25.5%
Business License (pres rates)	0.0	0.0	0.0	0.0%
Business License (prop rates)	0.0	0.0	0.0	0.0%
Taxes other than income (present rates)	2,123.5	2,395.5	272.1	12.8%
Taxes other than income (proposed rates)	2,246.0	2,516.9	270.9	12.1%
State Tax Depreciation	8,022.6	8,933.5	910.9	11.4%
Transp. Dep. Adj.	(297.2)	(297.2)	0.0	0.0%
State Tax Deduct(pres rates)	7,725.4	8,636.3	910.9	11.8%
State Tax Deduct(prop rates)	7,725.4	8,636.3	910.9	11.8%
Federal Tax Depreciation	4,942.4	5,503.6	561.2	11.4%
State Income Tax	359.3	359.3	0.0	0.0%
Transp. Dep. Adj.	(297.2)	(297.2)	0.0	0.0%
Pre. Stock Div. Credit	12.9	12.9	0.0	0.0%
Am. Jobs Act Deduction	140.2	140.2	0.0	0.0%
Fed. Tax Deduct.(pres rates)	5,017.4	5,578.6	561.2	11.2%
Fed. Tax Deduct.(prop rates)	5,242.8	5,804.0	561.2	10.7%

CHAPTER 6: INCOME TAXES

A. INTRODUCTION

This Chapter presents DRA's analysis of Income Taxes for the Bakersfield District of California Water Service Company. Tables 6-1 and 6-2 compare in detail DRA and CWS tax deductions and taxes estimates for the Fiscal Year 2007 – 2008 and the Escalation Year 2008 – 2009.

B. SUMMARY OF RECOMMENDATIONS

DRA agrees with the methods CWS used to calculate Income Tax. DRA's lower O&M expenses, A&G, Prorated Expenses and interest calculations have made a difference in the final tax estimates. The differences are due to difference in Operation and Maintenance expenses, A&G Payroll, Prorated Expenses; and Average rate base and the Capitalized Interest.

C. DISCUSSION

The tax deductions and credits in this proceeding were calculated in accordance with the normalization requirements of the Economic Recovery Act of 1981 (ERTA). Further, the provisions of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) have been incorporated in the tax deduction estimates. Finally, the provisions of the Tax Reform Act of 1986 (TRA 86) have been estimated and included into the general rate case in accordance with the requirements of Decision 87-09-026 dated September 10, 1987, Decision 87-12-028 dated December 9, 1987 and December 88-01-061 dated January 28, 1988.

Some of the provisions of TRA 86 have been incorporated into California Corporation Franchise Tax (CCFT) law in the California Bank and Corporation Tax Fairness, Simplification and Conformity Act of 1987 (State Tax Act of 1987). The provisions have been estimated and integrated into the CCFT calculations for this general rate case.

DRA calculated tax depreciation for state and federal income tax purposes by applying the ratio of DRA's estimate of net plant to CWS' estimate of net plant to CWS' tax depreciation estimate. This methodology will be trued up when a Commission decision is issued in this case.

To calculate the interest deduction, DRA used its ratebase and multiplied it by the weighted cost of debt, whereas CWS reduced the ratebase by working cash before multiplying by the weighted cost of debt. DRA followed the policy outlined in D.03-12-040. Because Working Cash is a part of ratebase and therefore should be considered when calculating the deduction for interest on debt during the calculation of income taxes.

Decision 89-11-058 issued on November 22, 1989 requires that for ratemaking purposes the prior year's CFFT should be used in the calculation of Fiscal Year 2005-2006 and the Escalation Year 2006-2007 Federal Income Tax (FIT). The tax requirements of that decision have been incorporated in this general rate case by both DRA and CWS. The prior year's CCFT was used as a deduction in arriving at the Fiscal Year 2007-2008 and the Escalation Year 2008-2009 estimated FIT.

Corporations may deduct dividends paid on special preferred stock issues or issues made to redeem such preferred stock. The Preferred Stock Dividend Credit tax deduction is reflected in DRA's calculations.

CWS has also applied the tax incentive on production from the American Job Creation Act of 2003 on CWS table 7-C. DRA agrees.

TABLE 6-1

CALIFORNIA WATER SERVICE COMPANY
BAKERSFIELD DISTRICT

TAXES BASED ON INCOME

TEST YEAR 2007 - 2008

(PRESENT RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	49,338.0	49,188.9	(149.1)	-0.3%
Deductions:				
O & M expenses	19,023.7	24,215.4	5,191.7	27.3%
A & G expenses	1,053.6	1,280.2	226.6	21.5%
G. O. Prorated expenses	6,327.8	6,669.2	341.4	5.4%
Taxes not on Income	2,123.5	2,395.5	272.1	12.8%
Transportation Deprec Adj	(297.2)	(297.2)	0.0	0.0%
Interest	2,687.1	3,189.2	502.1	18.7%
Income before taxes	18,419.6	11,736.6	(6,683.0)	-36.3%
Calif. Corp. Franchise Tax				
State Tax Deductions	(8,022.6)	(8,933.5)	-910.9	11.4%
Taxable income for CCFT	10,397.0	2,803.1	(7,593.9)	-73.0%
CCFT Rate	8.84%	8.84%		
CCFT	919.1	247.8	(671.3)	-73.0%
Addl. Tax .06% per D.84-05-036	1.7	1.7	0.0	0.0%
Adjusted CCFT	920.8	249.5	(671.3)	-72.9%
Federal Income Tax				
Tax Depreciation	4,942.4	5,503.6	561.2	11.4%
State Corp Franch Tax	359.3	359.3	0.0	0.0%
Pref Stock Dividend Credit	12.9	12.9	0.0	0.0%
Am. Jobs Act Deduction	140.2	140.2	0.0	0.0%
Taxable income for FIT	12,964.8	5,720.6	(7,244.2)	-55.9%
FIT Rate	35.00%	35.00%		
FIT	4,537.7	2,002.2	(2,535.5)	-55.9%
Total FIT & CCFT	5,458.5	2,251.7	(3,206.8)	-58.7%

TABLE 6-2

CALIFORNIA WATER SERVICE COMPANY
BAKERSFIELD DISTRICT

TAXES BASED ON INCOME

TEST YEAR 2007 - 2008

(AT CWS PROPOSED RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	60,598.2	60,418.3	(179.9)	-0.3%
Deductions:				
O & M expenses	19,092.3	24,283.8	5,191.5	27.2%
A & G expenses	1,053.6	1,280.2	226.6	21.5%
G. O. Prorated expenses	6,327.8	6,669.2	341.4	5.4%
Taxes not on Income	2,246.0	2,516.9	270.9	12.1%
Transportation Deprec Adj	(297.2)	(297.2)	0.0	0.0%
Interest	2,687.1	3,189.2	502.1	18.7%
Income before taxes	29,488.6	22,776.1	(6,712.5)	-22.8%
Calif. Corp. Franchise Tax				
State Tax Deductions	(8,022.6)	(8,933.5)	-910.9	11.4%
Taxable income for CCFT	21,466.0	13,842.6	(7,623.4)	-35.5%
CCFT Rate	8.84%	8.84%		
CCFT	1897.6	1223.7	(673.9)	-35.5%
Addl. Tax .06% per D.84-05-036	1.7	1.7	0.0	0.0%
Adjusted CCFT	1899.3	1225.4	(673.9)	-35.5%
Federal Income Tax				
Tax Depreciation	4,942.4	5,503.6	561.2	11.4%
State Corp Franch Tax	584.7	584.7	0.0	0.0%
Pref Stock Dividend Credit	12.9	12.9	0.0	0.0%
Am. Jobs Act Deduction	140.2	140.2	0.0	0.0%
Taxable income for FIT	23,808.4	16,534.7	(7,273.6)	-30.6%
FIT Rate	35.00%	35.00%		
FIT	8,332.9	5,787.2	(2,545.8)	-30.6%
Total FIT & CCFT	10,232.2	7,012.5	(3,219.7)	-31.5%

CHAPTER 7: UTILITY PLANT IN SERVICE

A. INTRODUCTION

DRA's and CWS' estimates for Plant in Service for the Test Year 2007-2008 and the Escalation Year 2008-2009 are shown in Tables 7-1 and 7-2 at the end of this Chapter.

DRA reviewed and analyzed CWS' testimony, application, workpapers, capital project details, estimating methods, and responses to various DRA data requests. DRA also conducted a field investigation of most of the proposed specific plant additions before making its own independent estimates including adjustments where appropriate. Important and significant differences between DRA's and CWS' estimates of specific and non-specific plant additions are attributed to the items as tabulated on Page 7-2.

B. SUMMARY OF RECOMMENDATIONS

DRA recommends that 1) plant additions for twelve specific projects in 2006 be adjusted, disallowed, deferred, or covered under Advice Letters; 2) plant additions for ten specific projects in 2007 be adjusted, disallowed, deferred, or covered under Advice Letters; 3) plant additions for six specific projects in 2008 be deferred, adjusted, or covered under an Advice Letter; and 4) plant additions for non-specifics in 2006 through 2008 be adjusted as described in Section C below. Based on these recommendations, DRA's estimates for the 2006, 2007, and 2008 plant additions are $5,454,500, $5,378,070, and $5,617,700 respectively versus CWS' proposed amounts of $24,390,000, $13,408,900, and $12,771,400 respectively for the same years.

Bakersfield

Recommended Plant Addition Adjustments

Item No.	Project Number and Description		CWS	DRA
1	9391	New well site work, equipment and treatment	$787,100	Advice Letter
2	9392/9394	Northwest Bakersfield Water Treatment Plant	$13,242,467	Advice Letter
3	13858	Replace generator at the operations center	$217,700	$153,400
4	14094	Test well in South Bakersfield	$213,600	$185,700
5	11418	Replace tank at Station 213	$248,400	$226,800
6	14025	Retrofit tank piping at Station 100	$312,000	$295,000
7	13791	Replace main on La France Road	$337,200	$280,000
8	13462	New main on Pacheco, Hughes and H Streets	$3,592,500	Advice Letter
9	9392/9394	Intake piping for NW Bakersfield WTP	$240,200	Disallow
10	15352	Update hydraulic model and facility master plan	$415,200	Defer to next GRC
11	11184/14520/14640	Replace vehicle and field & lab. Equipment	$104,700	Defer to 2007
12	14993/14994/15699	Additional vehicles for new employees	$97,600	$48,800
13	15379	Repave parking lot at the oerations center	$400,000	Advice Letter
14	15346	Add pump, Northeast Bakersfield Treatment Plant	$361,800	Advice Letter
15	15091	Emergency generator, NE Bakersfield WTP	$864,000	Advice Letter
16	15108	Partial expansion of NE Bakersfield WTP	$648,000	Advice Letter
17	14877	Replace 5,220 feet of 12 inch main	$1,111,500	Advice Letter
18	15314	Southwest Bakersfield Supply Project	$1,080,000	Defer to next GRC
19	14386	Install automatic meter reading system	$77,800	Disallow
20	N/A	Conversion of flat rate services to metered services	$2,730,400	Advice Letter
21	13431 to 13441	Replace five existing vehicles	$134,800	Defer to 2008
22	14982 to 15534	Additional vehicles for new employees	$156,300	$78,150
23	14880	Design expansion of NE Bakersfield WTP	$948,400	Defer to next GRC
24	15518	GAC treatment at Station 159	$346,100	$324,000
25	N/A	Replace 1,070 feet of additional mains	$456,900	Defer to next GRC
26	15315	Southwest Bakersfield Supply Project	$2,160,000	Defer to next GRC
27	N/A	Conversion of flat rate services to metered services	$2,839,600	Advice Letter
28	14988/14989/14994	Additional vehicles for new employees	$94,200	$47,100
29	N/A	Non specific budget for 2006, 2007 & 2008	$6,817,300	$4,623,070

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C. DISCUSSION

1) Project 9391 – New well site work, equipment & treatment

CWS proposed $787,100 in plant addition for this specific project in 2006 and showed a detailed cost breakdown to support the total amount. DRA reviewed the justification provided by CWS and agrees with the company on the need for this specific project to render a new well that was drilled in 2004 operational to meet demand from a housing tract that is already built out in the Northwest area of Bakersfield.

DRA sent Data Request CTL-5 in July 2006 to CWS asking the company to indicate the progress status of this proposed specific project since it is targeted for completion in 2006. In its response, CWS indicated that the project was near completion but did not provide information about the costs incurred so far. While reviewing the detailed cost breakdown, DRA found that there are three parts for the total estimate – (a) Site improvements estimated at $131,000 with a contingency of $15,000, (b) Well equipment estimated at $256,000 with a contingency of $10,000 and (c) Granulated Active Carbon treatment of hydrogen sulfide estimated at $400,100 with a contingency of $25,000. DRA also notes that there were two major cost components in the GAC treatment portion of this project, namely a pressure vessel estimated at $150,000 and a carbon filter estimated at $100,000.

These three contingencies totaling $50,000 and the two major cost components totaling $250,000 render the final cost of this project uncertain in the absence of actual contractor bids or total actual costs incurred for the completion of the project. In addition, while reviewing the site improvements estimate, DRA discovered that CWS has an excessive contingency of 17% and has made a mistake in adding up the subtotals to $121,300, which should be $96,300. DRA believes that a standard 10% contingency should be adequate for site

improvements and recalculated the total estimate for site improvements to be $104,000 instead of $131,000. Thus, the difference of $27,000 should be deducted from the proposed amount of $787,000. Therefore, DRA recommends that CWS file an advice letter in 2006 capped at $760,000 to recover the actual costs incurred after this project is completed and put into service.

2) Project 9392/9394 – Northwest Bakersfield Water Treatment Plant

CWS estimated $13,242,467 for this specific project in 2006 and showed a detailed cost breakdown to support the total amount. CWS would claim only half of the total cost ($6,501,150) as plant addition since the City of Bakersfield would pay for the other half of the total cost in a cost sharing agreement dated July 9, 2003. DRA notes that this is a project initiated by CWS in the last general rate case when it was in the conceptual stage, and DRA already agreed with CWS on its need to remedy poor groundwater quality conditions and to meet increased demand due to growth in the Northwest area of Bakersfield. CWS has since conducted a feasibility study on four different alternatives to find the best solution. CWS settled on a new surface water treatment plant located in the Northwest area of Bakersfield as the best option based on overall rank after evaluating key financial factors, such as upfront capital costs, annual operational, and maintenance costs, present worth and PUC revenue requirements and other non-monetary factors such as water quality, reliability, flexibility, impact on groundwater, administration, schedule/timing and security risks.

DRA reviewed the information provided by CWS and agrees with its reasoning, findings, and conclusion. In July 2006, DRA sent Data Request CTL-5 to CWS asking the company to indicate the progress status of this proposed specific project since it is targeted for completion in 2006. In its response, CWS indicated that this project has been under construction since December 2005 and is currently about 60% completed. In its field inspection in August 2006, DRA

confirmed that this was accurate, but concluded that the completion of this project would likely be in the early part of 2007 rather than in 2006. And CWS also confirmed this in its detailed justification submitted with the application, saying that the estimated date of completion of the project would be February 2007. While reviewing the detailed cost breakdown, DRA found that the final cost of this project is uncertain because there is a 15% contingency estimated at $930,000 which may not be all used up, a project management fee not to exceed the estimated $100,250 and a construction management fee not to exceed the estimated $660,000.

Also DRA found that in the progress report of all 2006 capital projects dated July 17, 2006, CWS shows the estimate of the purification portion of the project as $7,530,000 versus the $9,523,800, which CWS shows earlier in the capital budget. DRA believes that the progress report represents the most recent status and thus the difference of $1,993,800 should be deducted from the total proposed amount of $13,002,300. DRA calculated that the revised total estimate for CWS' half portion would be $5,504,250. Therefore, DRA recommends that CWS file an advice letter in 2007 capped at $5,504,250 to recover the actual costs incurred after this project is completed and put into service.

3) Project 13858 – Replace generator at the operations center

CWS proposed $217,700 in plant addition for this specific project in 2006 without showing a detailed cost breakdown to support the total amount. DRA reviewed the justification provided by CWS and agrees with the company on the need for this specific project since frequent power outages have shut down the operations of the customer center from time to time. This generator would power one 200 horsepower pump and provide emergency power to enable continuous operations.

DRA sent Data Request CTL-5 in July 2006 to CWS asking the company to provide a detailed cost breakdown and to indicate the progress status of this proposed specific project since it is targeted for completion in 2006. In its response, CWS indicated they have received price quotes for the generator and listed the following cost breakdown for other related work – (a) underground conduit work would cost $37,000, (b) a transfer switch would cost $15,000, (c) concrete foundation would cost $20,000 and (d) additional power distribution equipment would cost $2,000. Since CWS has obtained price quotes for the generator, DRA believes that this project would likely be completed in 2006. However, DRA found that in the progress report of all 2006 capital projects dated July 17, 2006, CWS has shown the total estimate of the project as $153,400. DRA believes that the progress report represents the most recent status and this amount is more reasonable than the proposed amount. Therefore, DRA recommends that the proposed amount of $217,700 be adjusted to $153,400 for plant addition in 2006.

4) Project 14094 – Test well in South Bakersfield

CWS proposed $213,600 in plant addition for this specific project in 2006 and showed a detailed cost breakdown to support the total amount. DRA reviewed the justification provided by CWS and agrees with the company on the need for this specific project to provide representative data before drilling a high yielding and contaminant free well at one of its undeveloped properties in the area. DRA sent Data Request CTL-5 in July 2006 to CWS asking the company to indicate the progress status of this proposed specific project since it is targeted for completion in 2006. In its response, CWS just indicated that this project will be completed in 2006 but in the progress report of all 2006 capital projects dated July 17, 2006, CWS has shown the estimate of the project as $185,700. DRA believes that the progress report represents the most recent status and this amount is more

reasonable than the proposed amount. Therefore, DRA recommends that the proposed amount of $213,600 be adjusted to $185,700 for plant addition in 2006.

5) Project 11418 – Replace tank at Station 213

CWS proposed $248,400 in plant addition for this specific project in 2006 and showed a detailed cost breakdown to support the total amount. DRA reviewed the justification provided by CWS and agrees with the company on the need for this specific project since the structural integrity of the existing tank has been compromised by extensive rusting and this has created an unsafe condition for maintenance personnel. DRA sent Data Request CTL-5 in July 2006 to CWS asking the company to indicate the progress status of this proposed specific project since it is targeted for completion in 2006. In its response, CWS just indicated that this project will be completed in 2006 but in the progress report of all 2006 capital projects dated July 17, 2006, CWS has shown the estimate of the project as $226,800. DRA believes that the progress report represents the most recent status and this amount is more reasonable than the proposed amount. Therefore, DRA recommends that the proposed amount of $248,400 be adjusted to $226,800 for plant addition in 2006.

6) Project 14025 – Replace tank piping at Station 100

CWS proposed $312,000 in plant addition for this specific project in 2006 and showed a detailed cost breakdown to support the total amount. DRA reviewed the justification provided by CWS and agrees with the company on the need for this specific project since the existing five tanks are in need of seismic upgrades to make them become a reliable water supply source when power will likely be out after an earthquake. DRA sent Data Request CTL-5 in July 2006 to CWS asking the company to indicate the progress status of this proposed specific project since it is targeted for completion in 2006. In its response, CWS just indicated that this project will be completed in 2006. In the review of the detailed cost breakdown,

DRA found that CWS has used an excessive contingency of 17% of construction cost. DRA believes that a standard 10% construction contingency is more reasonable since retrofitting tank piping is not a complicated process. Based on 10% contingency, DRA calculates that the total estimate should be $295,000. Therefore, DRA recommends that the proposed amount of $312,000 be adjusted to $295,000 for plant addition in 2006.

7) Project 13791 – Replace main on La France Road

CWS proposed $337,200 in plant addition for this specific project in 2006 and showed a brief cost breakdown to support the total amount. DRA reviewed the justification provided by CWS and agrees with the company on the need for this specific project since the existing main has experienced numerous leaks due to its poor condition. DRA sent Data Request CTL-5 in July 2006 to CWS asking the company to indicate the progress status of this proposed specific project since it is targeted for completion in 2006. In its response, CWS indicated that this project will be completed in 2006 under the terms of their Master Contract with West Valley Construction Company. While reviewing the proposed estimate at $337,200, DRA found that, for the 2,500 feet of the 8-inch PVC main, the unit cost is $135 per foot, which DRA views as excessive. Another similar 8-inch PVC main with 3,100 feet has a unit cost of only $112 per foot under Project 13873 in the same district in 2006. In the absence of a detailed cost breakdown or a firm bid from the contractor, DRA believes that it is more reasonable to use the $112 per foot unit cost, resulting in a total estimate of $280,000 for this main. Therefore, DRA recommends that the proposed amount of $337,200 be adjusted to $280,000 for plant addition in 2006.

8) Project 13462 – New main on Pacheco, Hughes and H Streets

CWS proposed $3,592,500 in plant addition for this specific project in 2006 and showed a brief cost breakdown to support the total amount. DRA reviewed the justification provided by CWS and agrees with the company on the need for this specific project to transport excess water from the Northeast area of Bakersfield to the southern area of the city to meet growing demand there. DRA sent Data Request CTL-5 in July 2006 to CWS asking the company to indicate the progress status of this proposed specific project since it is targeted for completion in 2006. In its response, CWS indicated that this project has already been completed under the terms of their Master Contract with West Valley Construction Company and submitted a bid from the contractor with a "not to exceed" amount of $3,157,000. During the field inspection in August 2006, DRA learned from CWS district personnel that the project was actually completed under budget with a savings of $300,000. DRA considers the final cost of this project to be uncertain due to the "not to exceed" nature of the contractor's bid. Therefore, DRA recommends that CWS file an advice letter in 2006 capped at $3,292,500 (the proposed amount less the $300,000) to recover the actual costs incurred on this completed project.

9) Projects 9392/9394 – Intake piping for NWB Water Treatment Plant

CWS proposed $240,200 in plant addition for this specific project in 2006 without showing a detailed cost breakdown to support the total amount. DRA reviewed the brief justification provided by CWS and agrees with CWS on the need for this specific project to transport raw surface water from its source to the new Northwest Bakersfield Water Treatment Plant, but disagrees with the company on who should pay for it. DRA reviewed the cost sharing agreement between CWS and the City of Bakersfield dated July 9, 2003, and found that the intake piping to transport raw surface water to the treatment plant would be the responsibility of the City of Bakersfield, not CWS. DRA also notes that CWS has not included this intake piping in adding up the costs of the various categories of

the treatment plant to reach the total estimate of $13,002,300 in Tab WP8B1 of the workpapers in the application. The costs that CWS would pay for are limited to (a) Structures estimated at $2,248,100, (b) Storage estimated at $255,500, (c) Pumps estimated at $974,900 and (d) Purification estimated at $9,523,800. Therefore, DRA recommends that the proposed amount of $240,200 under this specific project be disallowed for plant addition in 2006.

10) Project 15352 – Update hydraulic model & facilities master plan

CWS proposed $128,700 for updating its hydraulic model and $286,500 for updating its facilities master plan resulting in a total plant addition of $415,200 for this specific project in 2006. CWS did not show any detailed cost breakdown for the hydraulic model and only showed a lump sum of $244,100 for consultant work for the water supply and facilities master plan in the application workpapers. For justification, CWS simply cited changing water supply and quality conditions as the reason for the update. During the field inspection trip in August 2006, DRA learned from the CWS district personnel that the last update for both tasks was conducted in 2002. In early October 2006, DRA sent Data Request CTL-7 to CWS asking the company to explain why a new update is needed again so soon. In its response to the DRA data request dated October 23, 2006, CWS explained that the original water supply and facilities master plan for this district was one of the first such plans conducted by the company in the 1999 capital budget approved by its board of directors. CWS attempted to manage the project using limited internal staff at that time.

Due to a combination of many events and actions, the schedule for its consultant to perform work slipped several times and the completion of the project was delayed. The final documents were not given by the consultant to CWS until nearly 2005, but the contents were based on 1999 data. When CWS received the final documents, conditions in the Bakersfield system have changed significantly

due to the following developments – (a) A new major source of supply (the northeast area water treatment plant) has been added, (b) CWS has redirected water flow from another principle source of supply to different regions within the district to address the presence of arsenic in many wells, using large diameter transmission mains and changing pumping station operations, (c) CWS has begun to design and construct a second surface water treatment plant in the Northwest area of the city and (d) CWS has expanded the service area in response to major new developments in the community.

In summary, CWS claimed that the information contained in the final documents was outdated on arrival since it was based on conditions in 1999. By that time, the consultant had spent all the funds provided by CWS and was not willing to prepare a completely new document to reflect the current conditions without additional compensation. CWS could not accept the outdated documents as submitted by the consultant, so the company chose to negotiate with the consultant for an update for this general rate case.

DRA reviewed the above explanation provided by CWS and believes that the ratepayers in this district should not be asked to pay for the update of an outdated document that occurred because of some problems between CWS and its consultant. For example, CWS did not explain why the company let the consultant continue to spend money and work based on 1999 data, resulting in the outdated final document. Knowing that major changes were going to happen in the district between 1999 and 2005, CWS could have stopped the consultant somewhere along the line to save the remaining funds to conduct the update at a more appropriate time. With so many major capital projects scheduled to be completed by CWS in this general rate case, DRA believes that a more appropriate time for the update would be in the next general rate case when many new conditions can be reflected in the update. Therefore, DRA recommends that the proposed total amount of $415,200 under this project be deferred to the next general rate case and

that CWS should perform a cost benefit analysis to demonstrate direct benefit to ratepayers.

11) Projects 11184/14520/14640 – Replace vehicle and field/lab equipment

CWS proposed $104,700 in plant addition for these three specific projects in 2006. CWS' cost breakdown shows $25,100 to replace Vehicle #V099049, $27,700 to purchase various field equipment and $51,900 to purchase laboratory equipment and tools for the Northwest Bakersfield Water Treatment Plant. For Vehicle #V099049, CWS has indicated in its justification in the capital budget that the age of the vehicle is seven years old and the total mileage that has been driven is 108,000 miles. DRA's Water Branch has established a policy, dated July 2005, of allowing a vehicle to be replaced when the age of the vehicle is eight years old or the miles driven has reached 150,000 miles, whichever occurs first. Both the age and mileage of this vehicle in 2006 are still below the eight years and 150,000 miles limitations. Therefore, DRA recommends that replacement of this vehicle be deferred to 2007 in the amount of $25,100. For the field equipment and laboratory equipment, DRA reviewed the scheduled completion date of the Northwest Bakersfield Water Treatment Plant and noted that CWS has plans for the treatment plant to be in service in early 2007. Since both the field equipment and the laboratory equipment are only needed after the treatment plant is completed, DRA believes that there is no urgency for CWS to purchase these two categories of equipment in 2006. Therefore, DRA recommends that the proposed amounts of $27,700 and $51,900 be deferred to 2007 for plant addition.

12) Projects 14993/14994/15699 – Additional vehicles for new employees

CWS proposed $97,600 in plant addition for three additional vehicles in 2006. CWS' cost breakdown shows $26,700 for an additional vehicle for a new treatment plant operator, $42,900 for a second additional vehicle for another new treatment plant operator, and $28,000 for a third additional vehicle for a new

general foreman, all of whom will be working in the Northwest Bakersfield Water Treatment Plant. DRA consulted with its own witness who worked on the expense portion of this general rate case and asked if these three new employees would be allowed in 2006. The expense witness advised that rather than dealing with individual new positions requested by CWS one by one, DRA reviewed the total new payroll expense as a whole and has recommended to adjust the amount to about half of what CWS has requested. Since the additional vehicles are directly tied to the new employees, DRA found it reasonable to adjust the vehicle costs in the same way as expenses have been adjusted. Therefore, DRA recommends that the proposed amount of $97,600 for three additional vehicles be adjusted to $48,800 for plant addition in 2006.

13) Project 15379 – Repave parking lot at the operations center

CWS proposed $400,000 in plant addition for this specific project in 2007 without showing any detailed cost breakdown to support the total amount. DRA reviewed the justification provided by CWS and agrees with the company on the need for this specific project since customer traffic has increased substantially because of growth to require CWS to improve the existing conditions in the parking lot. DRA sent Data Request CTL-5 in July 2006 to CWS asking the company to show a detailed cost breakdown to support the proposed amount. In its response to the DRA data request dated August 18, 2006, CWS indicated that a more detailed cost estimate cannot be submitted until a study for the parking lot reconstruction is completed by a traffic consultant under Project 15387 in late 2006. Due to a still undefined scope and CWS just showing a lump sum, DRA considers the final cost of this project to be uncertain at this time. Therefore, DRA recommends that CWS file an advice letter in 2007 capped at $400,000 to recover the actual costs incurred after this project is completed and put into service.

14) Project 15346 – Add pump, Northeast Bakersfield Treatment Plant

CWS proposed $361,800 in plant addition for this specific project in 2007 without showing any detailed cost breakdown to support the total amount. DRA reviewed the justification provided by CWS and agrees with the company on the need for this specific project based on the following finding. Two of the three raw water pumps have had major overhauls due to premature pump failures so an additional raw water pump would provide CWS redundant capacity to ensure that water supply is not interrupted during high demand periods. Also, the new pump will run at a lower speed to reduce wear and tear and would consume less energy. DRA sent Data Request CTL-5 in July 2006 to CWS asking the company to show a detailed cost breakdown to support the proposed amount. In its response to the DRA data request dated August 18, 2006, CWS still did not show a detailed cost breakdown. While reviewing CWS' justification, DRA noted that the company has shown a lump sum budget of $335,000 for this project. In the absence of a detailed cost breakdown, DRA considers the final cost of this project to be uncertain at this time and believes that it is more reasonable to use the budget amount associated with the justification in the workpapers as a cap. Therefore, DRA recommends that CWS file an advice letter in 2007 capped at $335,000 to recover the actual costs incurred after this project is completed and put into service.

15) Project 15091 – Emergency generator, NEB Water Treatment Plant

CWS proposed $864,000 in plant addition for this specific project in 2007 without showing any detailed cost breakdown to support the total amount. DRA reviewed the justification provided by CWS and agrees with the company on the need for this specific project based on the following finding. Since July 2003, the Northeast Bakersfield Water Treatment Plant has been affected by several power disruptions each lasting six hours or longer. The treatment plant is the primary supplier of water to the growing northeast area of Bakersfield and extensive periods of down time could result in a threat to public health and severe liability to

CWS when pressure or fire flow requirements cannot be met. The installation of a 2.0 megawatt generator will provide the necessary backup power to keep the plant in operation.

DRA sent Data Request CTL-5 in July 2006 to CWS asking the company to show a detailed cost breakdown to support the proposed amount. In its response to the DRA data request dated August 18, 2006, CWS listed the following cost components at approximate prices - Generator (~$350,000), Switchgear (~$150,000), Concrete Foundation (~$50,000), Auxiliary Equipment (~$75,000), Design Services (~$50,000), Project Management (~$20,000), Contingency (~$105,000) and CWS Overhead (~$64,000). In the absence of a firm contractor's bid and due to the fact that all the costs provided by CWS are just approximate values, DRA considers the final cost of this project to be uncertain at this time. Therefore, DRA recommends that CWS file an advice letter in 2007 capped at $864,000 to recover the actual costs incurred after this project is completed and put into service.

16) Project 15108 – Partial expansion of NEB Water Treatment Plant

CWS proposed $648,000 in plant addition for this specific project in 2007 without showing any detailed cost breakdown to support the total amount. DRA reviewed the justification provided by CWS and agreed with the company on the need for this specific project based on the following finding. The northeast area of Bakersfield has experienced dramatic growth in the past few years and is expected to continue with sizable growth in the future. A partial expansion of 2.0 MGD is the quickest and most cost effective way to increase plant production capacity.

The 2.0 MGD has been selected because the amount represents the maximum number of modules that can be added to each filter rack without expanding the existing filter building. Also an expansion of this magnitude can be performed without any additional telemetry or electrical controls. DRA sent Data

Request CTL-5 in July 2006 to CWS asking the company to show a detailed cost breakdown to support the proposed amount. In its response to the DRA data request dated August 18, 2006, CWS still did not show a detailed cost breakdown. In the review of CWS justification, DRA noted that the company has shown a unit cost budget of $0.324 per gallon for this project which compares very favorably with a unit cost of about $1.0 per gallon for a full size expansion. Still, in the absence of a detailed cost breakdown or a firm contractor's bid, DRA considered the final cost of this project to be uncertain at this time. Therefore, DRA recommends that CWS file an advice letter in 2007 capped at $648,000 to recover the actual costs incurred after this project is completed and put into service.

17) Project 14877 – Replace 5,220 feet of 12-inch main, various streets

CWS proposed $1,111,500 in plant addition for this specific project in 2007 without showing any cost breakdown to support the total amount. CWS indicated that the route starts from an alley at Station 82 and behind Spruce Street, then going through 30th Street, H Street, 28th Street, Chester Street and ends at an alley behind K Street. During the field inspection in early August 2006, DRA toured the route accompanied by CWS district personnel and recognized that this main indeed covers a long distance. DRA reviewed the justification provided by CWS and agrees with the company on the need for this specific project since the existing main has experienced numerous leaks due to its poor condition. In July 2006, DRA sent Data Request CTL-5 to CWS asking the company to show a detailed cost breakdown to support the proposed amount. In its response dated August 18, 2006, CWS indicated that this project is scheduled for completion in 2007, but still did not show a detailed cost breakdown to support the proposed amount.

While reviewing the proposed estimate of $1,111,500, DRA found that for the 5,220 feet of the 12-inch ductile iron main the unit cost is $213 per foot, which DRA views as excessive. Another similar 12-inch ductile iron main with 10,208

feet has a unit cost of only $181 per foot under Project 13462 in the same district in 2006. In the absence of a detailed cost breakdown or a firm bid from a qualified contractor, DRA believes that the final cost of this project is uncertain at this time and that it is more reasonable to use the $181 per foot unit cost as a cap. Adding CWS' standard overhead of 8% of the construction cost, DRA calculated that the total estimate for this main should be capped at $1,020,400. Therefore, DRA recommends that CWS file an advice letter in 2007 capped at $1,020,400 to recover the actual costs incurred after this project is completed and put into service.

18) Project 15314 – Southwest Bakersfield Water Supply Project

CWS proposed $1,080,000 in plant addition for this specific project in 2007 without showing a detailed cost breakdown to support the total amount. For the justification of this project, CWS referred DRA to see a study in the application workpapers but DRA could not locate the study. DRA sent Data Request CTL-5 in July 2006 to CWS asking the company to provide a copy of the study and to show a detailed cost breakdown to support the proposed amount. In its response dated August 14, 2006, CWS indicated that no detailed justification or cost breakdown could be provided at this time. CWS explained that the project scope was still undefined since the study has not been finalized by its consultant. However, CWS felt that if growth continues at the present rate, additional water supply would be needed in the Southwest area of Bakersfield in this general rate case.

CWS submitted this project as a placeholder to reserve a certain amount of money for whatever direction CWS would decide to take later. Based on the above, DRA disagrees with CWS on the need for this project in 2007 for lack of both a detailed justification and a detailed cost breakdown. Therefore, DRA recommends that the proposed amount of $1,080,000 for this project be deferred

to the next general rate case when CWS has a defined scope and a detailed cost breakdown to support the proposed amount.

19) Project 14386 – Install automatic meter reading system

CWS proposed $77,800 in plant addition for this specific project in 2007 without any justification or detailed cost breakdown. DRA sent Data Request CTL-5 in July 2006 to CWS asking the company to explain why they need to install an automatic meter reading system and to show a detailed cost breakdown to support the proposed amount. In its response to the DRA data request dated August 18, 2006, CWS indicated that this project has been cancelled. Therefore, DRA recommends that this specific project be disallowed in 2007 in the amount of $77,800.

20) Conversion of flat rate services to metered services

CWS proposed $2,730,400 in plant addition for this specific project in 2007 without showing a detailed cost breakdown for the total amount. DRA reviewed the justification provided by CWS and agrees with the company on the need for this specific project since it has to comply with State Assembly Bill AB 2572. The Legislature has passed and the Governor has signed a water measurement law, which requires every water purveyor to install a water meter on every flat rate service by January 1, 2025, and that the cost of the installation be paid by the water user. CWS indicated that since there are approximately 33,000 flat rate services to be converted in this district, completing the whole project would require CWS to convert more than 2,000 flat rate services per year for 15 years.

DRA sent Data Request CTL-5 in July 2006 to CWS asking the company to provide a detailed cost breakdown to support the proposed amount. In its response, CWS indicated that there are two types of conversion. One is a simple conversion to be done by a CWS crew with labor estimated at $223, meter and fittings estimated at $100 and automation estimated at $125 for a total of $448 per

service. The other is a complete service replacement to be done by a contractor with labor estimated at $1,500, meter and fittings estimated at $100, and automation estimated at $125 for a total of $1,725 per service. An average estimate of $1,100 per service is used by CWS as the unit cost, assuming 50% of the conversions are simple and the other 50% are complete replacements. CWS also indicated that a total of 2,210 services are planned to be converted in 2007 to arrive at the proposed amount. However, DRA found that the proposed amount of $2,730,400 is excessive because CWS had shown a budget of $2,430,900 for the meter conversion in 2007 in its response. Adding the standard 8% CWS overhead to this budget amount, DRA calculated that the total estimate for this project should be $2,625,000. Also DRA believes that the final cost of this project is still uncertain at this time since there is no firm basis for CWS to assume that half of the conversions would be the simple type and the other half would be the complete replacement type, and plus there is no firm contractor bid yet for the complete replacement portion. Therefore, DRA recommends that CWS file an advice letter in 2007 capped at $2,625,000 to recover the actual costs incurred after this project is completed and put into service.

21) Projects 13431 to 13441 – Replace five existing vehicles

CWS proposed $134,800 in plant addition for these five specific projects in 2007. For all the vehicle replacements, CWS indicated in its justification in the capital budget that the age of the vehicles would be seven years old and the total mileage that would have been driven would range from 102,000 to 112,000 miles. DRA's Water Branch has established a policy dated July 2005 of allowing a vehicle to be replaced when the age of the vehicle is eight years old or the miles driven has reached 150,000 miles, whichever occurs first. Both the age and mileage of these five vehicles in 2007 would be still below the eight years and 150,000 miles limitations. Therefore, DRA recommends that replacements of these five vehicles be deferred to 2008 in the total amount of $134,800.

22) Projects 14982 to 15534 – Additional vehicles for new employees

CWS proposed $156,300 in plant addition for six additional vehicles in 2007. CWS' cost breakdown shows $26,800 for an additional vehicle for a new customer service manager and $25,900 each for five additional vehicles for new meter readers, service person and inspectors. DRA consulted with its own witness who worked on the expense portion of this general rate case and asked if these six new employees would be allowed in 2007. The expense witness advised that rather than dealing with individual new positions requested by CWS one by one, DRA has reviewed the total new payroll expense as a whole and has recommended to adjust the amount to about half of what CWS has requested. Since the additional vehicles are directly tied to the new employees, DRA found it reasonable to adjust the vehicle costs in the same way as expenses have been adjusted. Therefore, DRA recommends that the proposed amount of $156,300 for six additional vehicles be adjusted to $78,150 for plant addition in 2007.

23) Project 14880 – Design expansion of NEB Water Treatment Plant

CWS proposed $948,400 in plant addition for this specific project in 2008 without showing any detailed cost breakdown to support the total amount. DRA reviewed the justification provided by CWS and disagrees with the company on the need for this project in 2008. CWS stated that due to the expected strong growth in the Northeast area of Bakersfield, it will be necessary to expand the existing surface water treatment plant to meet the increased demand and that the expansion should occur no later than 2010. During the field inspection in August 2006, DRA asked the CWS district manager about the urgency of this project in 2008 given that there will be a partial expansion of the treatment plant in 2007 under Project 15108 and that there are signs that customer growth is going to slow down in the district due to a slowdown in the overall housing market. The impression that DRA received from the district manager was that this project could wait under these circumstances. Therefore, DRA recommends that the

amount of $948,400 for the design of a full expansion of the Northeast Bakersfield water treatment plant be deferred to the next general rate case.

24) Project 15518 – GAC treatment at Station 159

CWS proposed $346,100 in plant addition for this specific project in 2008 and showed a detailed cost breakdown to support the total amount. DRA reviewed the justification provided by CWS and agrees with the company on the need for this specific project since the water produced from the well at this station contains a contaminant which exceeds the limit set by the California Department of Health Services and CWS cannot afford to lose this source of supply which is located in the center of the distribution system. However, in reviewing the detailed cost breakdown, DRA found that CWS has used a 27% contingency at the amount of $68,000, which DRA considers excessive. In accordance with the 2005 R.S. Means estimating guidelines for construction projects in the Western Region of the United States, a project which is at conceptual stage such as this should have a contingency of no more than 20%. Based on this reduced contingency, DRA calculated the total estimate for this project to be $324,000. Therefore, DRA recommends that the proposed amount of $346,100 for this project be adjusted to $324,000 for plant addition in 2008.

25) Replace 1,070 feet of additional mains

CWS proposed $456,900 in plant addition for this specific project in 2008 without showing any detailed cost breakdown to support the total amount. DRA reviewed the brief justification provided by CWS and disagrees with the company on the need for this project in 2008. For the justification of this project, CWS just stated that this budget is needed to maintain their mains replacement program and that the exact locations of the main replacement would be determined at a later date. DRA believes that there is no urgency for CWS to complete this project in 2008 since the company has not identified the exact locations for main

replacement and also has not shown the size, length, and material of the main. Therefore, DRA recommends that this specific project be deferred to the next general rate case in the total amount of $456,900 when CWS can determine the exact location, size, length, and material for the main replacement.

26) Project 15315 – Southwest Bakersfield Water Supply Project

CWS proposed $2,160,000 in plant addition for this specific project in 2008 without showing a detailed cost breakdown to support the total amount. For the justification of this project, CWS referred DRA to see a study in the application workpapers, but DRA could not locate the study. DRA sent Data Request CTL-5 in July 2006 to CWS asking the company to provide a copy of the study and to show a detailed cost breakdown to support the proposed amount. In its response dated August 14, 2006, CWS indicated that no detailed justification or cost breakdown could be provided at this time. CWS explained that the project scope was still undefined since the study has not been finalized by its consultant. However, CWS felt that if growth continues at the present rate, additional water supply would be needed in the Southwest area of Bakersfield in this general rate case. This project was submitted as a placeholder to reserve a certain amount of money for whatever direction CWS would decide to take later. Based on the above, DRA disagrees with CWS on the need for this project in 2008 for lack of both a detailed justification and a detailed cost breakdown. Therefore, DRA recommends that the proposed amount of $2,160,000 for this project be deferred to the next general rate case when CWS has a defined scope and a detailed cost breakdown to support the proposed amount.

27) Conversion of flat rate services to metered services

CWS proposed $2,839,600 in plant addition for this specific project in 2008 without showing a detailed cost breakdown for the total amount. DRA reviewed the justification provided by CWS and agrees with the company on the need for

this specific project since it has to comply with State Assembly Bill AB 2572. The Legislature passed and the Governor had signed a water measurement law which requires every water purveyor to install a water meter on every flat rate service by January 1, 2025 and that the cost of the installation be paid by the water user. CWS indicated that since there are approximately 33,000 flat rate services to convert in this district, completing the whole project would require CWS to convert more than 2,000 flat rate services per year for 15 years. DRA sent Data Request CTL-5 in July 2006 to CWS asking the company to provide a detailed cost breakdown to support the proposed amount. In its response, CWS indicated that there are two types of conversion. One is a simple conversion to be done by CWS crew with labor estimated at $223, meter and fittings estimated at $100, and automation estimated at $125 for a total of $448 per service. The other is a complete service replacement to be done by a contractor with labor estimated at $1,500, meter and fittings estimated at $100 and automation estimated at $125 for a total of $1,725 per service. CWS uses an average estimate of $1,100 per service as the unit cost, assuming 50% of the conversions are simple and 50% are complete replacements. CWS also indicated that a total of 2,210 services are planned to be converted in 2008 to arrive at the proposed amount. However, DRA found that the proposed amount of $2,839,600 is excessive because CWS had shown a budget of $2,528,000 for the meter conversion in 2008 in its response. Adding the standard 8% CWS overhead to this budget amount, DRA calculated that the total estimate for this project should be $2,730,000. Also DRA believes that the final cost of this project is uncertain at this time since there is no firm basis for CWS to assume that half of the conversions would be the simple type and the other half would be the complete replacement type and plus there is no firm contractor bid yet for the complete replacement portion. Therefore, DRA recommends that CWS file an advice letter in 2008 capped at $2,730,000 to recover the actual costs incurred after this project is completed and put into service.

28) Projects 14988/14989/14994 – Additional vehicles for new employees

CWS proposed $94,200 in plant addition for two additional vehicles with utility bodies in 2008. CWS' cost breakdown shows $26,700 for an additional vehicle for a new meter reader, $35,500 for another additional vehicle for a new meter repair person, and $32,000 for two utility bodies. DRA consulted with its own witness who worked on the expense portion of this general rate case and asked if these two new employees would be allowed in 2008. The expense witness advised that rather than dealing with individual new positions requested by CWS one by one, DRA has reviewed the total new payroll expense as a whole and has recommended to adjust the amount to about half of what CWS has requested. Since the additional vehicles are directly tied to the new employees, DRA found it reasonable to adjust the vehicle costs in the same way as expenses have been adjusted. Therefore, DRA recommends that the proposed amount of $94,200 for two additional vehicles with utility bodies be adjusted to $47,100 for plant addition in 2008.

29) Non-specific Capital Budgets, 2006 to 2008

CWS proposed $2,101,200, $2,267,800, and $2,448,300, respectively in plant additions for non-specifics in the three years from 2006 to 2008. DRA reviewed CWS' methodology and found that CWS has used a rather complex four step trending method to come up with their estimates, using recorded data for inflation and company wide growth factors. In its response to DRA data request, CWS submitted actual expenditures for non-specifics in the last ten years. DRA reviewed the information and found that the actual expenditure was higher than the budgeted amount in some years, but lower than the budgeted amount in the other years. By nature, non-specifics are work to be done based on unforeseen conditions or emergencies and as such, they are very difficult to predict accurately. DRA believes that it would be more reasonable to use the average of the actual expenditures in those past ten years for 2006, adjusted for inflation for 2007, and

2008 (using the latest inflation factors published by DRA). Based on this approach, DRA recommends that the allowable non-specific capital budgets for 2006 to 2008 be $1,495,700, $1,540,570, and $1,586,800, respectively.

D. CONCLUSION

DRA's recommendations have been incorporated in the calculations for DRA's recommended Rate Base as shown in Table 9-1 and Table 9-2.

TABLE 7-1

CALIFORNIA WATER SERVICE COMPANY
BAKERSFIELD DISTRICT

PLANT IN SERVICE

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Plant in Service - BOY	207,641.4	221,971.0	14,329.6	6.9%
Additions				
Gross Additions	5,981.9	15,679.2	9,697.3	162.1%
Capitalized Interest	98.2	245.9	147.7	150.5%
Cap. Int. Plant Equiv CWIP	0.0	0.0	0.0	0.0%
Retirements	(801.6)	(801.6)	0.0	0.0%
Net Additions	5,278.5	15,123.6	9,845.1	186.5%
Plant in Service - EOY	212,919.9	237,094.6	24,174.7	11.4%
Weighting Factor	100%	100%		
Wtd. Avg. Plant in Service	212,919.9	237,094.6	24,174.7	11.4%

TABLE 7-2

CALIFORNIA WATER SERVICE COMPANY
BAKERSFIELD DISTRICT

PLANT IN SERVICE

ESCALATION YEAR 2008 - 2009

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Plant in Service - BOY	212,919.9	237,094.6	24,174.7	11.4%
Additions				
Gross Additions	6,221.4	15,041.7	8,820.3	141.8%
Capitalized Interest	102.5	234.1	131.6	128.4%
Cap. Int. Plant Equiv CWIP	0.0	0.0	0.0	0.0%
Retirements	(620.6)	(620.6)	0.0	0.0%
Net Additions	5,703.3	14,655.2	8,951.9	157.0%
Plant in Service - EOY	218,623.1	251,749.8	33,126.7	15.2%
Weighting Factor	100%	100%		
Wtd. Avg. Plant in Service	218,623.1	251,749.8	33,126.7	15.2%

1

CHAPTER 8: DEPRECIATION RESERVE AND DEPRECIATION EXPENSE

A. INTRODUCTION

This Chapter sets forth DRA's analyses and recommendations regarding depreciation reserve and expense for Bakersfield District. The tables at the end of the Chapter provide DRA and CWS estimates for Depreciation Reserve and Expense for Test Year 2007-2008 and Escalation Year 2008-2009.

B. SUMMARY OF RECOMMENDATIONS

DRA agrees with the methods used to calculate depreciation reserve and depreciation expense for Test Year 2007-2008 and Escalation Year 2008-2009. Differences between DRA and CWS are due to different plant additions.

C. DISCUSSION

As part of its review, DRA requested an explanation of CWS' depreciation methodologies. CWS provided a comprehensive presentation to discuss the depreciation methods. DRA compared the values reported in the GRC application with CWS annual reports to track beginning of year depreciation reserves. CWS used the composite rate of 2.96% for depreciation accrual[1] based on a straight-line remaining life curve using balances for this case consistent with Standard Practice U-4. The difference between CWS' and DRA's estimates is related to the different recommendations for plant additions.

D. CONCLUSION

DRA reviews and accepts CWS' methodology.

[1] CWS Workpapers, WP9C1.

TABLE 8-1

CALIFORNIA WATER SERVICE COMPANY
BAKERSFIELD DISTRICT

DEPRECIATION RESERVE & EXPENSE

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Depreciation Reserve - BOY	54,255.4	54,255.4	0.0	0.0%
Accruals				
Transportation Equipment	265.5	265.5	0.0	0.0%
Contributed Plant	407.0	407.0	0.0	0.0%
Other Plant in Service	5,427.8	5,997.7	569.9	10.5%
Total Accruals	6,100.3	6,670.1	569.8	9.3%
Retirements	(748.9)	(748.9)	0.0	0.0%
Depreciation Reserve - EOY	59,606.8	60,176.6	569.8	1.0%
Weighting Factor	100%	100%		
Wtd. Avg. Depr. Reserve	59,606.8	60,176.6	569.8	1.0%

TABLE 8-2

CALIFORNIA WATER SERVICE COMPANY
BAKERSFIELD DISTRICT

DEPRECIATION RESERVE & EXPENSE

ESCALATION YEAR 2008 - 2009

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Depreciation Reserve - BOY	59,385.4	59,799.5	414.1	0.7%
Accruals				
Transportation Equipment	303.2	303.2	0.0	0.0%
Contributed Plant	414.5	414.5	0.0	0.0%
Other Plant in Service	5,538.8	6,400.1	861.3	15.6%
Total Accruals	6,256.5	7,117.8	861.3	13.8%
Retirements	(663.2)	(663.2)	0.0	0.0%
Depreciation Reserve - EOY	64,978.7	66,254.1	1,275.4	2.0%
Weighting Factor	100%	100%		
Wtd. Avg. Depr. Reserve	64,978.7	66,254.1	1,275.4	2.0%

CHAPTER 9: RATEBASE

A. INTRODUCTION

This Chapter sets forth DRA's analysis and recommendations of rate base for the Bakersfield District. Tables 9-1 and 9-2 at the end of this report compare DRA and CWS estimates. Differences are due to different estimates of materials and supplies, working cash allowance, plant additions and Contributions in Advance of Construction.

B. SUMMARY OF RECOMMENDATIONS

DRA recommends a weighted average rate base for the Bakersfield District as follows in Table 9-A below:

Table 9-A
California Water Service Company
Bakersfield District
Weighted Average Rate Base Summary

	DRA Weighted Avg Rate Base ($000)	CWS Wtg. Avg. Ratebase ($000)	CWS Exceeds DRA Amount By ($000)	CWS Exceeds DRA Amount By %
2007-2008	$96,374.8	$122,691.1	$26,316.3	27.3%
2008-2009	$93,418.1	$128,123.9	$34,705.8	37.2%

Tables 9-1 and 9-2 at the end of this report provide a summary of DRA's weighted average rate base and depreciated rate base estimated for the Bakersfield District.

C. DISCUSSION

1) Materials and Supplies

CWS proposes $425,100 for materials and supplies based on a three-year average. DRA recommends $399,900 for Test Year 2007-2008 for materials and supplies based on a five-year average. DRA recommends $407,700 for Escalation Year 2008-2009 using the composite inflation rates normally used by DRA.

2) Working Cash Allowance

In the previous GRC, CWS did not update its lead/lag studies since the late 1980s. CWS managers indicated to DRA that a project was underway to update the lead/lag study. CWS provided the new lead/lag study with the workpapers during this GRC application. DRA reviewed the new lead/lag study and noted that it is comprehensive and well-documented.

CWS produced a lead/lag calculation of working cash that indicates a positive working cash allowance of $36,204,000 for Test Year 2007-2008. DRA disagrees with some of the expenses included in the lead/lag calculation and recommends some adjustments to CWS' lead/lag calculation and the estimated working cash allowance. DRA recommends positive working cash allowance of $1,422,200 for Escalation Year 2008-2009.

DRA estimates different lag days than CWS for several of the CWS expenses, such as ad valorem taxes, state corporation franchise tax, and federal income tax. DRA calculated the average lag days for ad valorem taxes at 70.5 days instead of the 40 days estimated by CWS. DRA estimated the lag days for State corporation franchise tax and federal income tax to be 93.0 days. In D.03-09-021 which determined General Office expenditures, CWS and DRA agreed

that 93 lag days fairly represents the timing and amount of taxes paid[2]. DRA recommends using 93 days rather than the 37.0 days and 40.9 days, respectively, estimated by CWS.

3) Net to Gross Multiplier

The net-to-gross multiplier represents the change in gross revenue required to produce a unit change in net revenue. DRA recommends that the net-to-gross multipliers shown in the table below be applied in developing the revenue requirement change calculation for the Test Year 2007-2008. CWS and DRA used the same methodology to calculate the net-to-gross multiplier.

Table 9-B
California Water Service Company
Bakersfield District
Net to Gross Multipliers

DRA Net to Gross Multiplier	CWS Net to Gross Multiplier
1.81138	1.81138

[2] CPUC Decision 03-09-021, dated September 4, 2003, paragraph 4.03

TABLE 9-1

CALIFORNIA WATER SERVICE COMPANY
BAKERSFIELD DISTRICT

WEIGHTED AVERAGE DEPRECIATED RATE BASE

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Wtd.Avg. Plant in Serv.	212,919.9	237,094.6	24,174.7	11.4%
Materials & Supplies	399.9	425.1	25.2	6.3%
Working Cash - Lead-Lag	1,422.2	3,620.4	2,198.2	154.6%
Amt withheld from Employees	(12.4)	(12.4)	0.0	0.0%
Wtd. Avg. Depr. Res.	(59,606.8)	(60,176.6)	(569.8)	1.0%
Advances	9,962.5	9,962.5	0.0	0.0%
Contributions	37,012.8	36,514.2	(498.6)	-1.3%
Reserved Amort.Intangibles	158.2	158.2	0.0	0.0%
Deferred Taxes	18,969.3	18,969.3	0.0	0.0%
Unamortized ITC	336.4	336.4	0.0	0.0%
General Office Alloc	3,636.9	3,636.9	0.0	0.0%
Taxes on - Advances	3,260.9	3,260.9	0.0	0.0%
Taxes on - CIAC	793.4	782.7	(10.7)	-1.3%
Average Rate Base	96,374.8	122,691.1	26,316.3	27.3%
Interest Calculation:				
Avg Rate Base less work cash	96,374.8	118,658.0	22,283.2	23.1%
x Weighted Cost of Debt	2.89%	2.890%	0.00%	0%
Interest Expense	2,785.2	3,429.2	644.0	23.1%
less Cap. Interest	(98.2)	(240.0)	(141.8)	144.5%
Net Interest Expense	2,687.1	3,189.2	502.1	18.7%

TABLE 9-2

CALIFORNIA WATER SERVICE COMPANY
BAKERSFIELD DISTRICT

WEIGHTED AVERAGE DEPRECIATED RATE BASE

ESCALATION YEAR 2008 - 2009

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Wtd.Avg. Plant in Service	218,623.1	251,749.8	33,126.7	15.2%
Material & Supplies	407.1	425.1	18.0	4.4%
Working Cash - Lead-Lag	1,431.2	3,778.4	2347.2	164.0%
Amt withheld from Employees	(12.4)	(12.4)	0.0	0.0%
Wtd. Avg. Depr. Reserve	(64,978.7)	(66,254.1)	(1,275.4)	2.0%
Advances	9,816.0	9,816.0	0.0	0.0%
Contributions	39,959.9	39,461.3	(498.6)	-1.2%
Reserved Amort.Intangibles	199.9	199.9	0.0	0.0%
Deferred Taxes	19,539.5	19,539.5	0.0	0.0%
Unamortized ITC	321.8	321.8	0.0	0.0%
General Office Alloc	3,755.0	3,755.0	0.0	0.0%
Taxes on - Advances	3290.9	3290.9	0.0	0.0%
Taxes on - CIAC	738.9	729.7	-9.2	-1.2%
Average Rate Base	93,418.1	128,123.9	34,705.8	37.2%
Interest Calculation:				
Avg Rate Base less work cash	93,418.1	123,932.8	30,514.7	32.7%
x Weighted Cost of Debt	2.89%	2.89%	0.00%	0.0%
Interest Expense	2,699.8	3,581.7	881.9	32.7%
less Cap. Interest	(102.5)	(228.2)	(125.7)	122.6%
Net Interest Expense	2,597.3	3,353.5	756.2	29.1%

TABLE 9-3

CALIFORNIA WATER SERVICE COMPANY
BAKERSFIELD DISTRICT

NET-TO-GROSS MULTIPLIER

TEST YEAR 2007 - 2008
AND ESCALATION YEAR 2008 - 2009

Item	DRA	CWS
1) Uncollectibles %	0.60960%	0.60960%
2) 1-Uncoll (100%-line 1)	99.39040%	99.39040%
3) Franchise tax rate	1.09500%	1.09500%
4) Local Franchise (line 3*line 2)	1.08832%	1.08832%
5) Business license rate	0.00000%	0.00000%
6) Business license (line 5*line 2)	0.00000%	0.00000%
7) Subtotal (line 1+line 4+line 6)	1.69792%	1.69792%
8) 1-Subtotal (100%-line7)	98.30208%	98.30208%
9) CCFT (line 8 * 8.84%)	8.68990%	8.68990%
10) FIT (line 8 * 35%)	34.40573%	34.40573%
11) Total taxes paid (ln 7+ln 9+ln 10)	44.79355%	44.79355%
12) Net after taxes (1-line 11)	55.20645%	55.20645%

Net-to-Gross Multiplier (1/line 12) = 1.81138 (DRA)

1 Net-to-Gross Multiplier (1/line 12) = 1.81138 (Utility)

CHAPTER 10: CUSTOMER SERVICE

A. INTRODUCTION

This Chapter presents DRA's analyses and recommendations on customer service.

B. SUMMARY OF RECOMMENDATIONS

DRA finds the numbers of service complaints low and customer service in this District satisfactory after reviewing CWS filings and responses to DRA data requests.

C. DISCUSSION

Table 10A presents a summary of CWS customer service complaints received from 2001 through 2006. It also contains the number of complaints as a percentage of total number of customers in the Bakersfield district.

Table 10-A
Bakersfield Customer Complaint 2001-2005

Type	2001	2002	2003	2004	2005	2006*
Taste and Odor	41	109	35	23	17	20
Color	0	0	91	46	14	0
Turbidity	56	121	0	0	0	21
Worms/Other Objects	0	0	12	0	0	0
Pressure	n/a	n/a	n/a	n/a	n/a	27
Illness-Waterborne	0	0	0	0	0	0
Air	n/a	n/a	n/a	n/a	n/a	7
Leaks	229	258	219	146	113	109
Other	14	0	12	17	8	0
Total	340	488	369	232	152	184
No. of Customers	57,979	58,866	60,045	61,598	63,030	64,243
Total as % of Customers	0.59%	0.83%	0.61%	0.38%	0.24%	0.29%

* Up to October 2006
* N/A - Data Not Available

CWS records indicate that the numbers of service complaints are low relative to the number of customers in the district. However, there is a spike in complaints for the year 2002, resulting in a relatively high complaint percentage. The turbidity and pressure complaints were the result of several wells going offline in the North Gardens area.

In addition, the high number of leaks in Bakersfield from 2001 through 2006 relative to other districts is not correlated to any unusual incidents. According to the CWS response to DRA data requests, Bakersfield is a large service region with many repairs and maintenance that result in a high number of service complaints.

D. CONCLUSION

DRA recommends that the Commission finds CWS customer service to be satisfactory.

CHAPTER 11: RATE DESIGN

A. INTRODUCTION

This Chapter sets forth DRA's analysis and recommendations on rate design for CWS' rate increase application for its Bakersfield District. The present rates for CWS in their application became effective on January 01, 2006. The proposed rates are those found in CWS' workpapers.

CWS currently provides water service in its Bakersfield District under the following schedules:

BK-1	General Metered Service
BK-2R	Residential Flat Rate Service
BK-4	Service to Privately Owned Fire Protection Systems
BK-5	Service to Public Fire Hydrants

B. SUMMARY OF RECOMMENDATIONS

CWS proposes to design rates for General Metered Service to recover 50 percent of the fixed costs through the service charge and the remainder through increasing quantity rates. The method for General Metered Service meets the requirements set forth in Decision D.86-05-064. CWS proposes to use the Service Charge ratios from CWS' 1991 general rate case filings. DRA does not object to these ratios. However, DRA's proposed rates differ from CWS' because of different recommended revenue requirements.

CWS' other rate change request involves implementation of a tiered rate structure (increasing block rates) along with a Water Revenue Adjustment Mechanism (WRAM) and Full Cost Balancing Accounts (FCBA). DRA prepared its analysis of rate design with the understanding that CWS' current GRC would be divided into two phases with the second phase addressing CWS' requests for

increasing block rates, WRAM and FCBA. CWS subsequently submitted a compliance filing A.06-10-026, requesting the Commission to address these issues. CWS submitted its compliance filing on October 26, 2006. Consequently, in this report, DRA addresses rate design from CWS' approved rate design and defers addressing increasing block rates, WRAM and FCBA to the compliance filing. DRA recommends those issues be deferred to the compliance filing A.06-10-026. Thus, in DRA's analysis of CWS' proposal, DRA continues to assume the absence of WRAM and FCBA and a rate design that recovers 50 percent of the fixed costs through the service charge and the remainder through a single quantity rate.

C. DISCUSSION

Concerning Privately Owned Fire Protection Service, CWS proposes to continue charging for Privately Owned Fire Protection Service according to the size of the connection. DRA finds this approach reasonable because the proposed rates are consistent with rates approved for other CWS' districts. DRA's proposed rates will differ from CWS' because DRA recommends a different revenue requirement.

D. CONCLUSION

As the vast majority of CWS' proposed rate design will be addressed in the compliance filing, DRA concludes that for this general rate case, it would be prudent for the Commission to adopt the CWS rate design from its last GRC. Notwithstanding the deferral of WRAM and FCBA to the compliance filing, the adopted rates will differ from CWS' because DRA recommends a different revenue requirement. DRA recommends the Commission adopt rates for CWS based on DRA's revenue requirement.

CHAPTER 12: SPECIAL REQUESTS

A. INTRODUCTION

This Chapter presents DRA's analysis and recommendations on the special requests made by CWS for the Bakersfield District.

B. SUMMARY OF RECOMMENDATIONS

(a) ***CWS requests a finding from the Commission that the district provides water service that meets or exceeds state and federal drinking water standards and General Order 103 (Exhibit F, page 2).***

CWS presented the following summary for the water quality situation in this District:

> There are two separate water systems in the Bakersfield District: Bakersfield and North Garden. The Bakersfield water system is served by a combination of groundwater produced from 91 active wells and 3 standby wells, treated surface water purchased from the Kern County Water Agency (KCWA), and surface water extracted from the Kern River and treated at California Water Service Company's (CWS) surface water treatment plant located in northeast Bakersfield. KCWA operates a conventional surface water treatment plant (coagulation, flocculation, filtration, sedimentation, disinfection) that takes water from the Kern River, the State Water Project, and local groundwater. Zinc orthophosphate is added to the treated water to prevent corrosion within customers' plumbing. CWS' northeast water treatment plant treats water from the Kern River using coagulation, flocculation, sedimentation, micro-filtration, and disinfection. Zinc orthophosphate is added to the treated water for corrosion control.
>
> The North Garden system is served by groundwater produced from 17 active wells. We are in the process of constructing a new well in North Garden that is scheduled to be placed into service during June 2006. CWS is also in the process of constructing a surface water treatment plant in northwest Bakersfield. The plant is scheduled to be placed into service during fall 2006. The treatment train consists of coagulation and flocculation followed by filtration through microfiltration membranes and disinfection using free

chlorine. In both the Bakersfield and North Garden water systems, sodium hypochlorite is used to provide a free chlorine disinfectant residual in the distribution system.

Several sources in the Bakersfield district are equipped with treatment prior to distribution. In the Bakersfield system, wells 129-01 and 153-01 are treated for the removal of tetrachloroethylene (PCE) using granular activated carbon (GAC). Well 107-01 is treated for iron and manganese removal using oxidation with chlorine followed by filtration through pyrolucite media. Wells 123-01 and 123-01 are blended in a large pipeline with several other wells prior to distribution to reduce the levels of PCE to under the MCL of 5 ppb prior to distribution. Wells 146-02 and 146-04 are blended in the same pipeline to reduce the levels of trichloroethylene (TCE) to below the MCL of 5 ppb prior to distribution. Wells 133-01 and 135-01 are also blended in this pipeline to reduce the levels of 1,2-dibromo-3-chloropropane (DBCP) to less than the MCL of 0.2 ppb. Wells 29-02 and 192-01 are equipped with GAC treatment to remove hydrogen sulfide and an unidentified taste and odor, respectively.

In the North Garden system, well 175-01 blends with well 201-01 prior to distribution to reduce the nitrate concentration to less than the MCL of 45 ppm. Wells 178-01, 190-01, 197-01, 214-01, and 219-01 are equipped with catalytic GAC for the removal of hydrogen sulfide. The hydrogen sulfide is oxidized and converted to sulfate within the GAC vessel.

Water Quality Issues

The Environmental Protection Agency (EPA) lowered the arsenic MCL from 50 ppb to 10 ppb effective January 23, 2006. Compliance with the MCL is based on the average of four quarterly samples collected during 2006 or 2007. In an initial survey of historical test results in 2002, CWS estimated as many as 23 wells with production capacity of 25 MGD might have been out of compliance with the arsenic standard. Further testing of current conditions indicates that only six current wells in the Bakersfield system potentially do not comply with the new MCL of 10 ppb. Until the compliance status of these wells is determined, they are being used as little as possible. The total production capacity of these six wells is approximately 7 MGD.

Bakersfield well 159-01 was recently taken out of service due to the detection of 1,2-dichloroethane (1,2-DCA) in excess of the MCL of 0.5 ppb. CWS plans to add GAC treatment to this well

rather than constructing a new well to replace the loss in production. This treatment will be constructed under PID#15518 in the 2008 capital budget.

North Garden well 219-01 is a new well that was placed into service in June 2005. The well is equipped with catalytic GAC treatment for hydrogen sulfide removal. Within a few months of being placed into service, it became necessary to backwash the system excessively due to continual build-up of bacteriological material on the top of the GAC media. It was determined that the bacteriological growth was caused by the addition of oxygen to the water prior to the GAC vessel. Oxygen is added to aid in the conversion of hydrogen sulfide to sulfate within the GAC. However, CWS determined that increasing the oxygen concentration in the water was spurring the growth of aerobic bacteria. In order to prevent the bacteriological growth on the media, ultraviolet treatment will be used prior to oxygen injection to inactivate the bacteria, thereby preventing their growth on the GAC. The project is currently in the design phase. It is expected to go online during the summer of 2006.

DRA has thoroughly reviewed the latest Department of Health Services (DHS) annual inspection report and the cover letter included in Exhibit F, Testimony of Chet Auckly, Director of Water Quality and Environmental Affairs at CWS. DRA found that CWS has covered the following three important aspects of water quality in detail to show that: 1) The Bakersfield District has not exceeded any MCL (maximum contaminant level) or deviated from accepted water quality procedures since the last general rate case. 2) This district has not been cited by DHS since the last general rate case. 3) This district has complied with all federal and state drinking water standards.

DRA also contacted DHS in writing directly in early October 2006 asking the responsible engineers in that agency who have expertise in water quality to review and to indicate any concerns they may have regarding the water quality report for this district as submitted by CWS dated July 2006. DRA did not receive any negative comments from DHS by the end of October 2006.

CWS has made a thorough water quality presentation for this district in this proceeding. CWS has made substantial progress in improving water quality in this district. DRA agrees that CWS has complied with applicable water quality standards in this district during the most recent three-year period.

(b) The Water Revenue Adjustment Mechanism request is excluded from the scope of this proceeding.

(c) The offset rate increase request to reflect the General Office allocation request is excluded from the scope of this proceeding.

(d) CWS requested a change from an incremental cost balancing account to a total water cost balancing account to track the water supply mix changes among its groundwater, surface water, and purchased water supplies. This request is excluded from the scope of this proceeding.

(e) **CWS requests an early, *ex parte* order to update Rule 15 to increase the water supply special facilities fee in this district (Exhibit E, page 5).**

DRA recommends for the Bakersfield District that the forecasted Contributions in Aid of Construction (CIAC) for 2007, 2008, and 2009 be forecasted at a net increase of $762,780 for each of the three years for a total of $2,288,340. The recommendation represents an average of what transpired in the 5 year period, 2001 to 2005, rather than the forecasted net decreases of $127,700, $146,500, and $127,700 for the three year period 2007, 2008, and 2009, as requested by CWS. This equates to a decrease in forecasted rate base in the amount of $2,690,240 for the three year period, 2007 through 2009. For the forecasted Advances for Construction for Test Year 2007 and Escalation Year 2008, and 2009, DRA recommends that a net increase of $3,047,240, for each of the three forward looking years be forecasted. This recommendation represents

an average of the additions for the time frame 2001 to 2005. This would compare to a requested net increase of $2,939,300, $2,947,200 and $2,939,300 for the three year period 2007, 2008, and 2009 respectively. This equates to an additional decrease to forecasted rate base in the amount of $315,920. The forecasted amount for lot fees be $3,300 rather than the requested amount of $1,500 and be reflected as part of Advances for Construction, as ordered by D. 05-12-020, dated December 2005, for Apple Valley Water District.

(i) Bakersfield is the largest district maintained by CWS. Accordingly, the Bakersfield District shows numerically the highest, with respect to growth and new facilities, than any of CWS' other districts. For the 2007 Test Year, CWS requests 1,188 new connections at an average fee of approximately $1,500 per lot, which equates to $1,755,300 in lot fees. DRA recommends an amount of $3,300 per lot fee for 1,188 new connections, which equates to $3,920,400 in lot fees. DRA's recommendation is based on the Bakersfield District's forecasted cost of approximately $3,300 on a per customer basis for the addition of a new treatment plant. DRA is of the opinion that the $3,300 would a more realistic forecast for lot fees.

(ii) For the Test Year 2007, CWS requests a net decrease of $127,700 for Contributions in Aid of Construction and a net decrease of $146,500 and $127,700 for 2008 and 2009 respectively, as described above. DRA analyzed the last 5 years of activity, coupled with the forecasted growth, and finds that CWS' request for Bakersfield District is not representative of the growing trend in the District. Bakersfield is growing, and should thereby reflect a forecasted increase for the three year period.

(iii) For Test Year 2007 CWS requests a net increase of $2,939,300 to its Advances for Construction and a net increase of $2,947,200 and $2,939,300 for attrition years 2008 and 2009 respectively. DRA examined what

CWS experienced during the 5 year historical period of 2001 through 2005. CWS spent $916,600 drilling wells for growth during that period, booked a steady increase from $987,489 in 2001 for booked extension agreements to $2,444,250 in 2004. For 2005, CWS booked $1,777,841 in extension agreements, which shows a slight decline. Additionally, CWS showed a steady growth in customers served by main extensions. All of the extension agreement amounts represented advances, which reduced plant in service, and thereby rate base.

(iv) DRA also examined the number of customers served by main extensions in the 2001 to 2005 time frame, which reflected a steady increase from 905 customers in 2001 to 1,785 customers in 2005. With the above described growth and activity DRA is of the opinion that its recommendations, which is reflective of growth, be adopted rather than what has been requested by CWS for the Bakersfield District.

(v) DRA recommends that for both CIAC and Advances increases be adopted for the three forward looking years as described above. DRA also recommends that an amount of $3,300 be adopted for lot fees and be included in Advances for Construction. The recommended treatment of such fees is in accordance with what was adopted for the Apple Valley Ranchos Water Company in D. 05-12-020. Specifically D. 05-12-020 states that the cost of all necessary facilities, including wells, tanks, and treatment facilities, when clearly attributable to new customers, should be recovered in the facilities charge, and not imposed on the existing customer base.

(f) **CWS requests to amortize its purchased water and purchased power balancing accounts in compliance with ordering paragraph 3 of D. 06-04-037.**

As of June 30, 2006 the balancing accounts included in CWS' Exhibit I shows an over collection of $1,170,666 or 2.37% of the annual revenue. DRA reviewed and agreed that the balancing accounts should be amortized.

Ordering paragraph 3 of D. 06-04-037 stated that "Class A water utilities shall report on the status of their balancing accounts in their general rate cases and shall propose adjustments to their rates in that context to amortize under-or over-collections in those accounts subject to reasonableness review. They also may propose such rate adjustments by advice letter at any time that the under-or over-collection in any such account exceeds two percent (2%) of annual revenues for the utility or a ratemaking district of the utility."

CWS' request to amortize its purchased water and purchased power balancing accounts in this district is in compliance with ordering paragraph 3 of D. 06-04-037.

CHAPTER 13: STEP RATE INCREASE

A. FIRST ESCALATION YEAR

On or after November 5, 2007, CWS should be authorized to file an advice letter, with appropriate supporting workpapers, requesting the step rate increase for 2008 authorized by the Commission, or to file a lesser increase in the event that the rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 2007, exceeds the lesser of (a) the rate of return found reasonable by the Commission for CWS for the corresponding period in the most recent rate decision, or (b) the rate of return found reasonable in this case. This filing should comply with General Order 96-A. The requested step rates should be reviewed by the Commission's Water Division (Division) to determine their conformity with this order, and should go into effect upon the Division's determination of compliance. The Division should inform the Commission if it finds that the proposed rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised tariff schedule should be no earlier than 30 days after filing. The revised schedules should apply to service rendered on and after their effective date. Should a rate decrease be in order, the rates should become effective on the filing date.

B. SECOND ESCALATION YEAR

For the second year an attrition adjustment should be granted for the revenue requirement increases attributable for the expense increases due to inflation and rate base increases that are not offset by the increases in revenues, with the revenue change to be calculated by multiplying forecasted inflation rate by DRA and operational attrition plus financial attrition times adopted rate base in 2008 times the net-to-gross multiplier.

C. ESCALATION YEARS INCREASES

The table below shows the Summaries of Earnings for Escalation Years 2008-2009 and 2009-2010. To obtain the increases in these years, D. 04-06-018 requires water utilities to file an Advice Letter 45 days prior to the start of the year showing all calculations supporting their requested increases.

The revenues shown in Table 13-1 are for illustration purposes and the actual increases would be authorized only after approval of the utility's advice letter.

TABLE 13-1

SUMMARY OF EARNINGS

CALIFORNIA WATER SERVICE COMPANY
BAKERSFIELD DISTRICT

Item	DRA 2008-09 (Thousands of $)	DRA 2009-010	% increase	
Operating revenues	46,271.3	46,425.8	0.3%	Esc. Factor
Operation & Maintenance	19,310.0	19,638.2	1.7%	1.017
Administrative & General	1,036.3	1,054.9	1.8%	1.018
G.O. Prorated Expense	6,747.9	6,862.6	1.7%	1.017
Depreciation & Amortization	5538.8	5633.0	1.7%	1.017
Taxes other than income	2,099.9	2,135.6	1.7%	1.017
State Corp. Franchise Tax	629.7	591.1	-6.1%	
Federal Income Tax	3,155.0	3,002.1	-4.8%	
Total operating expenses	38,517.6	38,917.5	1.0%	
Net operating revenue	7,753.7	7,508.3	-3.2%	
Rate base	93,418.1	90,461.4	-3.2%	
Return on rate base	8.30%	8.30%	0.0%	

APPENDIX A

QUALIFICATIONS AND PREPARED TESTIMONY

QUALIFICATIONS AND PREPARED TESTIMONY
OF
YOKE W. CHAN

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Yoke W. Chan and my business address is 505 Van Ness Avenue, San Francisco, California. I am a Senior Utilities Engineer in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background.

A2. I graduated from the University of California at Los Angeles, with a Bachelor of Science Degree in Civil Engineering. I am a registered civil engineer in the State of California.

Q3. Briefly describe your educational background and professional experience.

A3. I have been employed by the Commission for many years and have testified and worked on many general rate case proceedings, offset rate cases, transfer and compliance matters of large water utilities. I have also worked on ECAC proceedings for the energy utilities.

Q4. What is your responsibility in this proceeding?

A4. I am the Project Manager for this proceeding and responsible for Chapters 1, 13 and portion of 12 of DRA's Reports on the Results of Operations for Bakersfield, Dixon, King City, Oroville, Selma, South San Francisco, Westlake and Willows districts.

Q5. Does this conclude your prepared direct testimony?

A5. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
TONI CANOVA

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Toni Canova and my business address is 505 Van Ness Avenue, San Francisco, California. I am in the Water Branch of the Division of Ratepayer Advocates as a Public Utility Regulatory Analyst IV.

Q2. Please summarize your education background and professional experience.

A2. I graduated from The Evergreen State College in Olympia, Washington, with a Bachelor of Arts Degree in Environmental Studies. I have been employed by the Commission for three years. Previously, I was employed by the Department of Ecology's Water Quality Program for the State of Washington.

Q3. What is your responsibility in this proceeding?

A3. I am responsible for Result of Operation tables for Bakersfield, King City, and Selma Districts, Chapter 2 testimony, Water Consumption and Operating Revenues, for all eight districts, and the Selma district Special Request (F) for Phase-in revenue requirement.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
VIBERT GREENE

Q.1. Please state your name and address.

A.1. My name is Vibert Greene. My business address is 505 Van Ness Avenue, San Francisco, California.

Q.2. By whom are you employed and in what capacity?

A.2. I am employed by the California Public Utilities Commission as a Utilities Engineer in the Division of Ratepayer Advocates Water Branch.

Q.3. Please briefly describe your educational background and work experiences.

A.3. I have a: Ph D in research in Pressure Driven Ultra-filtration and Master of Engineering at the University of California, Berkeley; Masters of Science in Engineering from San Jose University; Bachelor of Science in Mechanical Engineering and Bachelor of Arts in Mathematics from the University of Hawaii, Honolulu. I also completed Management training at Leigh University. I attended both the NARUC Western Utility Rate School Seminar in the basics of utility ratemaking for regulated entities and the National Regulatory Research Institute Seminar on Public Utility Regulation in the 21st Century.

After graduation from Berkeley, I joined the California Public Utilities Commission. I am presently employed as a Utilities Engineer in the Ratepayer Representation Branch of the Water Division dealing with class A Water Utilities. Since joining the Commission in 1998 as a Utilities Engineer, I have worked on several Class A, B and C Water Utilities' Rate Cases. My duties and responsibilities covered all aspect of a Rate Case including but not limited to: Rate Design, Rate Base, Operation and Maintenance Expenses, Taxes-General, Administration and General Office Expenses, Depreciation, Revenues and Utility Plant in Service. In addition, I have worked on several formal proceedings including evaluation studies and other investigations initiated by the Commission. My duties and responsibilities also require participation in Public Hearings, giving expert testimony before the Commission, conducting Field Audits of Utilities Plant and writing Reports.

Prior to joining the Commission, I worked in the private sector for 20 plus years. My work experiences included several years in Design Engineering, Process Engineering, Research and Development, Program Management and Project management. I have managed several special projects; including several years Project Management experience--managing projects for an International Consortium which consisted of Companies from Japan, Italy and France. Five years Program Management as the Test Director for a National Consortium which consisted of five-agencies located in three States. I am also a part-time Mathematics instructor at the Evergreen College in San Jose, and hold two mechanical device patents.

Q.4. What is your area of responsibility in this proceeding?

A.4 In the Results of Operations I am responsible for a preparing Chapter 3—Operation and Maintenance, and Chapter 6—Income Taxes.

Q.5. Does that complete your prepared testimony?

A.5. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
CLEASON D. WILLIS

Q.1. Please state your name and business address.

A.1. My name is Cleason D. Willis. My business address is 505 Van Ness Avenue, San Francisco, California, 94102.

Q.2. By whom are you employed and in what capacity?

A.2. I am employed by the California Public Utilities Commission as a Regulatory Analyst.

Q.3. Please briefly describe your educational background and work experience.

A.3. I graduated from the California State University of Hayward with a Bachelor of Science Degree in Business Administration and Finance, and a Master of Science Degree in Public Administration and Management. After graduation I joined the California Public Utilities Commission. Since that time I have performed economic, and reasonableness analysis for various Electrical, Gas, Water, and Telecommunications operations. I have written reports and testified regarding the validity of my findings and recommendations concerning my analysis for various utility proceedings.

Q.4. What is your area of responsibility in this proceeding?

A.4. I am responsible for the Administration and General Expenses, and Taxes Other Than Income Chapters for the California Water Service Company General Rate Case.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
CLEMENT T. LAN

Q.1 Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A.1 My name is Clement T. Lan and my business address is 505 Van Ness Avenue, San Francisco, CA. I am a licensed Utilities Engineer in the Water Branch of the Division of Ratepayer Advocates.

Q.2 Please summarize your educational background.

A.2 I received a Bachelor of Science degree in Mechanical Engineering from the California Polytechnic State University at San Luis Obispo in June 1972 and a Masters of Science degree in Mechanical Engineering from the University of California at Berkeley in December 1973. I have taken various courses on ratemaking topics within the last eight years at the commission.

Q.3 Please summarize your business experience.

A.3 After graduation from the University of California at Berkeley, I first worked in the private industry as a design engineer on industrial facilities for about four years and then worked in the federal government as a project engineer on general facilities including utility systems for about twenty years. I joined the Commission in January of 1999 and have worked on various Class A rate cases involving some administrative & general expenses and operation & maintenance expenses and numerous utility plant-in-service, depreciation, and ratebase issues.

Q.4 What is your responsibility in this proceeding?

A.4 I am responsible for Chapter 7 (Plant In Service) for the Bakersfield, King City, Selma, South San Francisco and Westlake districts of California Water Service Company in this proceeding.

Q.5 Does this conclude your prepared direct testimony?

A.5 Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
JOYCE W. STEINGASS, P.E

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Joyce W. Steingass. My business address is 505 Van Ness Avenue, San Francisco, California. My job title is Utilities Engineer and I work in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background and professional experience.

A2. I am a graduate of the University of California, Berkeley, with a Bachelor of Science in Mechanical Engineering. I am a licensed professional Mechanical Engineer in the State of California. I have been employed by the California Public Utilities Commission since 2005. My current assignment is within the Division of Ratepayer Advocates where I work on Class A General Rate Cases. Prior to joining CPUC, I was a management consultant at Barrington-Wellesley Group, performing investigations of energy companies for regulatory Commissions in other states. Before that I was a utility consultant for Navigant Consulting. Earlier in my career, I was employed by Pacific Gas and Electric Company for seventeen years where my most recent position was the Director of Distribution Quality Assurance, in charge of audits related to gas and electric distribution operations. During my career with PG&E, I was the Pipeline Replacement Superintendent for PG&E's San Francisco Division for three years. That project entailed overseeing the replacement of cast iron and pre-1930s steel natural gas distribution pipelines.

Q3. What is your responsibility in this proceeding?

A3. I am the witness responsible for Utility Plant in Service and Depreciation Expenses and Reserve. I prepared the following Chapters of DRA's report:

- Chapter 8 – Depreciation Expenses and Reserve
- Chapter 9 – Rate Base and Net to Gross Multiplier

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
KATIE LIU

Q.1. Please state your name and business address.

A.1. My name is Katie Liu. My business address is 505 Van Ness Avenue, San Francisco, California.

Q.2. By whom are you employed and in what capacity?

A.2. I am employed by the California Public Utilities Commission - DRA Water Branch – as a Public Utilities Regulatory Analyst.

Q.3. Please briefly describe your educational background and work experience.

A.3. I am a graduate of the University of California, Los Angeles with a Bachelor's degree in Economics. I have been employed by the California Public Utilities Commission since 2006. My current assignment is within DRA – Water where I work on Class A General Rate Cases.

Q.4. What are your responsibilities in this proceeding?

A.4. I am responsible for Chapter 10, Customer Service, of DRA's Water Branch Report for California Water Service Company in this proceeding.

Q.5. Does this conclude your prepared testimony?

A.5. Yes.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
TATIANA OLEA

Q. Please state your name and business address.

A. My name is Tatiana Olea. My business address is 505 Van Ness Avenue, San Francisco, California 94102.

Q. By whom, and in what capacity are you employed?

A. I am employed by the Public Utilities Commission of California (CPUC) as a Public Utilities Regulatory Analyst (PURA) IV in the Division of Ratepayer Advocates, Water Branch.

Q. Please summarize your educational background and work experience.

A. In 1998, I completed a graduate program at Syracuse University where I received a master in Public Administration with a concentration in Public Finance from the Maxwell School. My undergraduate degree is in Anthropology and Sociology from Saint Mary's College in Moraga, California. After completing graduate school, I joined the government practice of PriceWaterhouse (now PriceWaterhouseCoopers) and later worked as an analyst for the Federal Reserve Bank of San Francisco. After the Federal Reserve, I returned to consulting with Bartle Wells Associates of Berkeley, CA., where I specialized in water and sewer rate design and revenue bond financing. Since leaving the Federal Reserve in 2001, I have worked on consulting assignments with public agencies, engineers, and other professionals to evaluate financing alternatives for public projects.

My experience includes extensive rate design and financing work for municipal water and sewer utilities. I have developed water, sewer, and recycled water rate structures including designing tiered rate structures. I prepared long-range financial plans for utilities and prepared preliminary official statements and related documents for municipal bond sales. Last year, I served as Senior Analyst in two utility revenue bond financings totaling over $115 million. I have also developed and implemented development impact fees and user charges.

In municipal rate design cases, I served as expert witness and testified in front of governing bodies during public hearings approximately 20 times.

I joined the staff of the CPUC in September of this year. My current assignments include rate cases, evaluation of tiered rates and analyzing the impact of decoupling (WRAM). I am project lead for the current California Water Services Company compliance filing and I am sponsoring rate design testimony in the CalAm GRC.

Q. What is the purpose of your testimony today?

A. I am sponsoring Chapter 11, Rate Design, of the DRA's Report on CWS' GRC.

Q. Does that complete your prepared direct testimony in this proceeding?

A. Yes, at this time.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
PAMELA T. THOMPSON

Q.1 Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A.1 My name is Pamela T Thompson and my business address is 505 Van Ness Avenue, San Francisco, CA. I am a Financial Examiner IV in the Water Branch of the Division of Ratepayer Advocates.

Q.2 Please summarize your educational background.

A.2 I received a Bachelor of Arts degree in Mathematics and Spanish Literature from Dominican University in San Rafael in May 1974 and a Masters of Business Administration degree in Accounting from Golden Gate University in June 1978. I am also a licensed Certified Public Accountant in the State of California.

Q.3 Please summarize your business experience.

A.3 I graduated from Dominican College with a Bachelor of Arts degree in Mathematics and Spanish Literature in 1974. I subsequently graduated in June 1978 from Golden Gate University with a Master of Business Administration degree in Accounting. I am a licensed Certified Public Accountant in the State of California. I joined the staff of the California Public Utilities Commission in August 1976. In my capacity as a Financial Examiner, I have examined the financial records of various utilities under the jurisdiction of the Commission, including gas, electric, and water utilities. I have testified numerous times before the Commission.

Q.4 What is your responsibility in this proceeding?

A.4 I am responsible for portion of Chapter 12 for the Bakersfield and Selma districts respectively, in the areas of Contributions, Advances and Lot Fees in this proceeding.

Q.5 Does this conclude your prepared direct testimony?

A.5 Yes, it does.